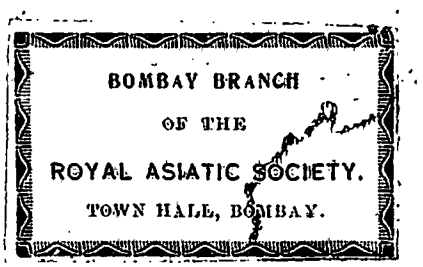
R[illegible] O[illegible] T O[illegible] THE FUTURE
O[illegible] THE
PERMANENT COURT
OF INTERNATIONAL JUSTICE
AND
OTHER PAMPHLETS

00108890

CX
-P
26



Digitized with financial assistance from the
Government of Maharashtra
on 02 July, 2018

1 Report of the informal Inter-Allied Committee on the Permanent Court of International Justice. 1944

2 Report of the Committee on the training of Civil Servants. 1944

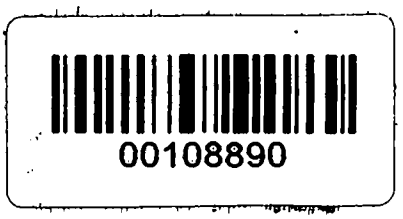
3 Employment policy. 1944

4 Proposals for an international Clearing union. 1943

5 United States proposal for a united & associated nations Stabilization Fund. 1943

6 Agreement for United Nations Relief & Rehabilitation Administration New Delhi. 1943

CX. p. 26


00108890

Miscellaneous No. 2 (1944)

Report of the Informal Inter-Allied Committee on the Future of the Permanent Court of International Justice

10th February, 1944

108890

Presented by the Secretary of State for Foreign Affairs to Parliament by Command of His Majesty

CX.b.26.

LONDON
PRINTED AND PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE
To be purchased directly from H.M. STATIONERY OFFICE at the following addresses:
York House, Kingsway, London, W.C. 2; 13a Castle Street, Edinburgh 2;
39-41 King Street, Manchester 2; 1 St. Andrew's Crescent, Cardiff;
80 Chichester Street, Belfast;
or through any bookseller

1944
(*Reprinted* 1945)
Price 9*d*. net

Cmd. 6531

MEMBERSHIP OF THE COMMITTEE.

Sir William Malkin: *United Kingdom (Chairman).*

Professor Georges Kaeckenbeeck: *Belgium.*

Mr. D. M. Johnson*: *Canada.*

Mr. Frantisek Havlicek: *Czechoslovakia.*

Professor R. Cassin; Professor A Gros: *French Committee of National Liberation.*

Mr. C. Stavropoulos: *Greece.*

Mr. Georges Schommer: *Luxemburg.*

Mr. E. Star-Busmann: *Netherlands.*

Mr. R. M. Campbell: *New Zealand.*

Mr. Erik Colban: *Norway.*

Professor Bohdan Winiarski: *Poland.*

Mr. G. G. Fitzmaurice: *United Kingdom (Secretary).*

* Owing to his joining the Canadian Armed Forces, Mr. Johnson was only able to attend the first two meetings of the Committee and has not signed the Report.

TABLE OF CONTENTS.

	Paragraphs
CHAPTER I.—INTRODUCTION	1–7
CHAPTER II.—NEED FOR A NEW INTERNATIONAL AGREEMENT	8–11
CHAPTER III.—CONNEXION BETWEEN THE COURT AND A GENERAL INTERNATIONAL ORGANISATION	12–20
CHAPTER IV.—CONSTITUTION OF THE COURT	21–44
Section 1.—Qualifications and Nationality of Judges	21–28
Section 2.—Number of Judges	29–32
Section 3.—Period of Appointment	33–37
Section 4.—National and Supplementary Judges	38–44
CHAPTER V.—METHOD OF NOMINATION AND ELECTION	45–53
Section 1.—Nomination	45–47
Section 2.—Election	48–53
CHAPTER VI.—JURISDICTION OF THE COURT	54–63
CHAPTER VII.—ADVISORY OPINIONS	64–75
CHAPTER VIII.—PROCEDURE	76–84
Section 1.—General	76–77
Section 2.—Language	78
Section 3.—Method of Producing Judgments	79–84
CHAPTER IX.—APPEALS	85–90
CHAPTER X.—FINANCE	91–96
CHAPTER XI.—REGIONAL CHAMBERS	97–111
Introductory Paragraphs	97–100
First Proposal	101–108
Objections to the First Proposal	109–110
Second Proposal	111–112
CHAPTER XII.—SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS	113–155

REPORT OF THE INFORMAL INTER-ALLIED COMMITTEE ON THE FUTURE OF THE PERMANENT COURT OF INTERNATIONAL JUSTICE.

10th February, 1944.

CHAPTER I.

INTRODUCTION.

1. In the early part of the year 1943, a proposal was made by the Government of the United Kingdom for taking advantage of the presence in London of a number of experts in the service of certain of the Allies to consider the question of the Permanent Court of International Justice. It was felt that this was a matter to which early consideration could be given without inconvenience, since the only assumption which required to be made was that an International Court in some form would be needed in future, whereas the time was not then ripe for going into other questions which would arise in connexion with the post-war situation. It was accordingly suggested that such Governments as had available an expert with an adequate knowledge of the subject should each nominate one such representative to constitute an informal expert committee to consider this question. It was to be understood that the object of this Committee would be to produce a report which might be of assistance to all the United Nations, but would not be binding on the Governments represented on the Committee. The experts were to act purely in their personal capacity and not in the name of their Governments. This proposal was accepted by the Governments of Belgium, Canada, Czechoslovakia, Greece, Luxemburg, The Netherlands, New Zealand, Norway and Poland, and by the French National Committee (now French Committee of National Liberation), who appointed the experts whose names appear on the first page of the present Report. The Government of Yugoslavia, while not appointing an expert to the Committee, expressed a desire to be kept informed as to its work and has been in regular receipt of the Committee's minutes.

2. The first meeting of the Committee was held on the 20th May, 1943, when Mr. G. G. Fitzmaurice was appointed Secretary. The Committee has held nineteen meetings in all, and now has the honour to present its Report.

3. As stated in paragraph 1, the only assumption which it is necessary to make for the purposes of our Report is that an International Court in some form will be required in future. Such a Court might be either (*a*) the existing Permanent Court of International Justice, continued in existence with such modifications in its present Statute as may be necessary, or (*b*) a new Court established by means of a new Statute, which, however, would probably contain a number of provisions taken from or based upon the present one. Which of these two alternatives should be adopted is a question of high policy with which it is not our province to deal; but we hope that the material and recommendations of this Report may be found useful whichever course be adopted. Accordingly, references to the future Court in this report should be regarded as applicable whether that Court be the Permanent Court of International Justice or a newly-created body.

4. We have not thought it necessary to burden this Report with a general description of the organisation and working of the Permanent Court

of International Justice, and in general we have not referred to provisions in the Statute of the Court as to which we consider that no amendment is called for. It is, we think, generally agreed that the Statute has on the whole worked well, and it is desirable to make full use of an existing structure which has proved well adapted for its purpose. It should be assumed, accordingly, that as regards the provisions of the Statute which are not mentioned in this Report, we consider that they should be retained in the constitution of the future Court. We would point out, however, that the Special Chambers set up under Articles 26–29 of the Statute to deal with Labour and Transit cases, and to provide a summary form of procedure, have scarcely, if at all, been utilised. We have not, therefore, gone into the question of these Chambers and we make no recommendations on the subject.

5. We have, so far as possible, avoided matters of detail and have confined ourselves to the broad issues of law and policy affecting the future of the Court. We have made definite and unanimous recommendations, where we considered such to be called for, in regard to all the subjects we have dealt with, with the exception of the question of regional chambers which forms the subject of Chapter XI. In this chapter we have broken entirely new ground, and in view of this and of the fact that the question is not directly material to the main topic before us, namely, what action is necessary or desirable to secure the existence and functioning of a standing International Court in future, we have not thought it appropriate to put forward definite recommendations on the subject of regional chambers. We have preferred to confine ourselves to drawing attention to the matter and to setting out for consideration two tentative methods by which it might be dealt with, if a decision in that sense were eventually taken.

6. As part of the general question of the future Court we have considered the subjects of its name and the location of its seat, both of which have a certain political and psychological importance. As regards the former, there has been a tendency in certain quarters to employ unofficial expressions, such as "World Court," instead of the Court's correct title of "Permanent Court of International Justice." We doubt, however, whether, as the formal and official style of a permanent International Court, the present title can be improved upon. It also lends itself to the convenient abbreviation of "Permanent Court," and we accordingly recommend its retention.

7. As to the location of the Court, we think that every consideration of convenience, association and sentiment is in favour of retaining The Hague as the central and principal seat of the Court, without prejudice to the possibility of its sitting elsewhere on occasion, or even acquiring subsidiary seats if the course of events made this desirable.

Chapter II.

NEED FOR A NEW INTERNATIONAL AGREEMENT.

8. As pointed out in paragraph 3 above, we assume that the existing Permanent Court of International Justice will either (*a*) continue in existence after the war, with such modifications in its present Statute as may be necessary, or (*b*) be replaced by a new Court established by means of a new Statute. Under hypothesis (*b*) a new international agreement between the States concerned would obviously be necessary. But it appears to us that under hypothesis (*a*) a new international agreement would equally be

required before the Permanent Court of International Justice could resume its functions, and that the necessary action to produce such an agreement should not be unduly delayed. The reasons why this is so are as follows.

9. Under Article 8 of the Statute, the Judges of the Court are appointed by means of a simultaneous election by the Assembly and Council of the League of Nations, and the Judges so elected hold office for nine years. The last "general election" took place in 1930, and a new Court should accordingly have been elected by the Assembly and Council in 1939. The meetings of the Assembly and Council fixed for September in that year were, however, postponed owing to the outbreak of the war, and though the Assembly met in December to consider the appeal by the Finnish Government, it decided not to proceed during its session with the renewal of the membership of the Court, but to regard the election as postponed to another session. Since then, the Court has only been kept in being in virtue of the provision in Article 13 of the Statute that the members of the Court "shall continue to discharge their duties until their places have been filled." During this period one of the Judges of the Court has died and two have resigned, and owing to this fact and to the presence of some of the Judges in countries under German occupation, it is unlikely that the Court could muster a quorum at present if it were called upon to sit. It is, moreover, probable that some of the Judges, owing to age or other reasons, would not be willing to continue their membership of the Court after the war. In any case, it would be impossible to regard the existing Court as still continuing in existence under Article 13 for more than a limited period.

10. It is clear therefore that, if the Court is to continue in existence after the war, a general election must be held as soon as practicable. But, as explained above, under the existing Statute such an election can only be conducted by the Assembly and Council of the League of Nations. It does not appear likely that when peace is restored the Assembly and Council will be available for this purpose and even if they were we are of opinion that, for the reasons given in Chapter V, this system of election should not be continued and should be replaced by something else. This would involve a modification of the Statute which would require a new international agreement between the States concerned. This would be even more necessary if other recommendations in this Report which involve modifications of the Statute are adopted.

11. It results from the above that whether the existing Court is continued or a new one substituted for it, one of the matters to be considered by the States concerned after the termination of the present hostilities will be the conclusion of a new international agreement on the subject.

Chapter III.

CONNEXION BETWEEN THE COURT AND A GENERAL INTERNATIONAL ORGANISATION.

12. For the purposes of this Report we assume that after the war some General International Organisation will be set up, as contemplated, for instance, in paragraph 4 of the Moscow Declaration of the 30th October, 1943. It is not necessary for us to speculate what the nature of that organisation will be, but whatever it is, the question whether the Court should be connected with it, and, if so, in what way, is one of the most important points which will require decision in connexion with the future of the Court.

13. The Permanent Court of International Justice is at present closely connected with the League of Nations. It was established in consequence of Article 14 of the Covenant, which required the Council to submit to the members of the League plans for its establishment. The same article provides that the Court might give advisory opinions "upon any dispute or question referred to it by the Council or by the Assembly," and it resulted from this that advisory opinions could not be given except upon such a reference. Under its Statute the members of the Court are elected by the Assembly and Council of the League. The expenses of the Court are met by the League; its budget is part of the League of Nations budget and is examined and passed by the financial authorities of the League as such. This is a connexion of a nature which may be described as organic, and the first question is whether such a connexion with the future international organisation is desirable.

14. In our opinion this question should be answered in the negative. It cannot, we think, be doubted that the Court has to some extent suffered in the past from its organic connexion with the League, which, whether logically or not, resulted in its prestige being dependent to some extent upon the varying fortunes of the League. Moreover, this organic connexion was doubtless responsible, at any rate in part, for the unwillingness of some States to become parties to the Statute, and for the fact that others severed their connexion with the Court when they withdrew from the League.

15. It seems, moreover, possible that any General International Organisation would, in its early stages, be of a tentative character and may undergo changes as the result of experience. It is, however, clearly desirable that the Court should be on a permanent basis and should not be liable to be affected by changes which the Organisation might undergo.

16. Another consideration which leads to the same conclusion is that such an organic connexion between the Court and a General International Organisation will not work satisfactorily unless the membership of the two institutions is entirely, or at any rate practically, identical. This was not so in the case of the Permanent Court and the League, since not all the parties to the Statute were members of the League and not all the members of the League were parties to the Statute, and this caused considerable inconvenience in practice. It will probably be considered desirable that the Court should be universal in character, in that it should be open to all civilised States to become parties to the Statute and thereby entitled to take part in the activities connected with the Court, but it does not seem likely that this will be the case with the future International Organisation, at any rate, in its early years.

17. We accordingly recommend that the organic connexion which has existed between the Permanent Court of International Justice and the League should not be continued. This does not mean, however, that there should be no connexion between the Court and the General International Organisation at all. In our view, the Court should be regarded as part of the machinery at the disposal of the Organisation, and this would appear to be consistent with such proposals as have been made in connexion with the Organisation, which, so far as our knowledge goes, all seem to contemplate the existence of an International Court as part of its machinery. Once the Court has been established, it would be open to the International Organisation to make such use of it as it thought fit; it could, for instance, provide in its own constitution the conditions in which its members would be bound to submit disputes of a justiciable character to the Court, and

it might similarly prescribe any measures which it thought appropriate for ensuring that the decisions of the Court were effectively complied with. We deal with this point further when considering the question of the jurisdiction of the Court in Chapter VI.

18. It is, of course, essential that the judicial independence of the Judges of the Court should in no way be prejudiced by any connexion between it and a General International Organisation. But it does not appear that the independence of the Judges of the Permanent Court of International Justice (as distinct from the prestige of the Court as a whole) was ever regarded as affected by its organic connexion with the League, and we see no reason to suppose that the much looser connexion with the International Organisation which we advocate would have any such effect.

19. If the Court is not organically connected with the General International Organisation, it should not be dependent upon it for finance, and some separate arrangement would be necessary. We deal with this point in Chapter X.

20. It may be that, in the course of time, experience may show the desirability of a somewhat closer connexion between the Court and the General International Organisation; this would depend upon the way in which events developed and the form ultimately assumed by the Organisation. The fact that at the outset the connexion had been of the looser type which we advocate would not prevent the subsequent establishment of such closer connexion as the nations might think appropriate at a later time.

CHAPTER IV.

CONSTITUTION OF THE COURT.

Section 1.—Qualifications and Nationality of Judges.

21. Under Article 2 of its Statute, the Permanent Court of International Justice is to be composed of "a body of independent Judges, elected regardless of their nationality from amongst persons of high moral character who possess the qualifications required in their respective countries for appointment to the highest judicial offices, or are jurisconsults of recognised competence in international law." This appears to us to be in principle an adequate description of the qualifications required in Judges, and we do not suggest any alteration in it.

22. We have given considerable thought to the question of what, within the framework of the above provision, the composition of the Court ought to be. We all agree that a combination of persons possessing judicial experience and persons possessing "recognised competence in international law" (these two qualifications are not mutually exclusive) should be aimed at, while some of us attach considerable importance to the possession of experience in international affairs. The question of what the proportion should be between what may be called the judicial and the professorial elements in the Court is not one as to which it is possible to lay down anything like a fixed rule, but we feel that the former has so far been under-represented in the Permanent Court of International Justice, and that an increase in the number of Judges who have had judicial experience in their own countries would be desirable in future, even if this involved some diminution in the professorial element. This question, however, and the cognate question of the extent to which the possession of official, political or diplomatic experience should be regarded as a qualification for member-

ship of the Court, is in our opinion not one which can be dealt with by any provision of the Statute; it must be left to the judgment of those responsible for the nomination and election of the Judges, and all that we can do is to indicate the considerations which, in our opinion, should be borne in mind.

23. Under Article 2 of the Statute the Judges are to be "elected regardless of their nationality." In principle this is certainly the ideal to be aimed at, the object being to choose a Court composed of the most suitable and competent persons whom the world can produce, from whatever countries they may come. But Article 9 provides that the electors are to bear in mind that "not only should all the persons appointed as members of the Court possess the qualifications required, but the whole body also should represent the main forms of civilisation and the principal legal systems of the world"; and this inevitably introduces the idea of nationality to some extent. We do not feel, however, that the reference to "the principal legal systems of the world" is altogether satisfactory. If what it means is that there should be representation of the various legal systems based, *e.g.*, on Roman law, the Code Napoléon and the Anglo-Saxon Common Law respectively, this result is likely to be achieved in any event without any special provision being necessary. But one of the "principal legal systems of the world" is certainly the law of Islam, and no representative of that law has ever been elected to the Permanent Court. We feel that the emphasis should rather be on the differences of outlook and methods of thought to be found amongst exponents of different legal systems.

24. We are of opinion therefore that no express provision should be made for the representation of the different legal systems of the world as such upon the Court. On the other hand, we consider that there is great value in the representation on the Court of different types of mind and methods of legal thought, which may indirectly have the consequence that certain countries would in practice habitually be represented. If the principle of electing the best available candidates is acted on, it will almost inevitably result that different schools of thought would in practice find representation, so that no special steps to secure that end would be necessary.

25. This naturally leads to the question whether particular countries should, as such, have a prescriptive right to representation on the Court. Prior to the establishment of the Permanent Court of International Justice, this was one of the major difficulties in the way of the constitution of a standing International Court. It was then got over by the ingenious device of a simultaneous election by the Assembly and Council of the League, it being held that the necessity of each Judge being elected by the Council as well as by the Assembly would secure the permanent representation of such countries as could fairly expect it.

26. It is, in our opinion, no longer either necessary or desirable to adopt this or any other method of ensuring the permanent representation of particular countries—or of particular groups of countries, to which similar considerations apply. It is essentially inconsistent with the principle of electing the best candidates available irrespective of nationality, to which we attach the greatest importance. Moreover, it would render more difficult a reduction in the present number of Judges to which, for the reasons given in Section 2 of this Chapter, we also attach great importance. Nor does it appear necessary from the point of view of the limited number of countries who might fairly expect to be always represented on the Court. It seems probable that those countries would in fact always be so represented, either because of the operation of the considerations mentioned in paragraph 24

above, or because the qualifications of the candidates nominated by them are likely to be so outstanding that they would be sure of election on their merits alone. This appears to us to be a natural result and much preferable to giving any countries or groups of countries a specific right to permanent representation.

27. If, however, this course is adopted, it will be more than ever necessary that the elections should be conducted on the basis of choosing the best men available. If this principle were substantially departed from it would, in our opinion, be almost inevitable that the idea that certain countries or groups of countries should have a right as such to permanent representation would revive, and we should expect it to be accompanied or followed by a movement to increase the number of Judges. Either of these developments would, in our view, be most undesirable.

28. The "independence" of the Judges, prescribed in Article 1 of the Statute, is safeguarded by the provisions of Articles 16 and 17, under which they may not exercise any political or administrative function, engage in any other occupation of a professional character, act as agent, counsel or advocate in any case, or participate in the decision of any case in which they have previously taken an active part; of Article 18, under which a Judge cannot be dismissed except by the unanimous consent of the other members of the Court; and of Article 19, under which they enjoy diplomatic privileges and immunities when engaged on the business of the Court. Under Article 23 the Judges are bound to hold themselves permanently at the disposal of the Court unless they are on regular leave or prevented from attending by illness or other serious reason. These provisions have worked satisfactorily in practice, and we consider that they should be maintained without alteration.

Section 2.—Number of Judges.

29. Under the original Statute of the Permanent Court of International Justice the number of Judges was 11, with 4 Deputy Judges, who were called upon to sit when necessary to make up the number of 11. In 1930 the Deputy Judges were abolished and the number of Judges was raised to 15. This is the present number of the Judges of the Court, the number necessary to constitute a quorum being 9.

30. In our opinion this figure of 15 (which may on occasion be raised to 17 owing to the presence of *ad hoc* judges) is too high and is not conducive to the satisfactory working of the Court. It is much higher than the number of Judges who normally sit in the Superior Courts of most, at any rate, of the countries of the world. Leaving out of account exceptional cases, such as Courts of Cassation, there is, so far as our information goes, no case where the number of Judges normally exceeds 9; in general the numbers appear to vary from 8 to 5. If the Court is too large the efficiency of its deliberations is likely to be prejudiced, and the participation of an excessive number of Judges in those deliberations is liable to result in a deterioration in the quality of the judgments produced. We accordingly regard a substantial reduction in the present number of Judges as essential.

31. In our opinion the appropriate number of Judges is 9. There is indeed a case to be made for a lower figure, but we consider that 9 is the smallest number likely to win general acceptance, bearing in mind the desirability of providing sufficient scope for the representation on the Court of different types of mind and methods of legal thought. The figure of 9 would, of course, be exclusive of *ad hoc* Judges, if these are retained in conformity with the system recommended in Section 4 of this Chapter.

32. On the basis of a Court of 9 Judges, we recommend that the number necessary to constitute a quorum should be fixed at 7, since we do not consider that a lower figure would be generally acceptable. In normal circumstances 9 Judges should suffice to provide a quorum of 7, but it is necessary to provide for the possibility of illness, long leave and casual vacancies, and in Section 4 of this Chapter we make certain proposals which should ensure that it would be always possible to secure the attendance of a Court of 9, so that a quorum of 7 would present no difficulty, and should indeed only be required to meet the case of illness occurring in the course of a session.

Section 3.—Period of Appointment.

33. Under Article 13 of the Statute, the members of the Permanent Court of International Justice are elected for a period of nine years and may be re-elected. Vacancies resulting from death or resignation are filled as they occur, the newly-elected member holding his appointment for the remainder of his predecessor's term. It results from this that a " general election " is held every nine years, when all the members of the existing Court go out of office and a new Court is elected, though some members of the previous Court are probably re-elected.

34. From some points of view there is a case to be made for electing the Judges of the Court for life, subject to an age limit. It is argued that this would give stability to the Court and security of tenure to the Judges, and would generally promote the cohesion and independence of the Court and a true international outlook. We feel, however, that these arguments are outweighed by the considerations that appointment for life might result in the presence on the Court of an excessive number of Judges of advanced age, and would seriously diminish the extent to which the Court could at intervals be revived by the introduction of new blood. Judges who are eminently satisfactory can always be re-elected, and it is undesirable to give a life tenure to any who may not be. We are of opinion, therefore, that the present system of election for nine years should be continued.

35. We are of opinion, however, that it is undesirable to continue the present system under which the entire Court goes out of office simultaneously every nine years. The result of this is a complete break in the continuity and traditions of the Court, unless a considerable number of the Judges succeed in securing re-election. We feel, therefore, that there is everything to be said for replacing the present system by one which would ensure both the continuity of the Court and a supply of new blood at fixed intervals. We recommend accordingly that while the system of election for nine years should be retained and Judges elected to fill casual vacancies should hold office for the remainder of their predecessors' term, one-third of the Judges should go out of office every three years, when an election would be held to fill these vacancies, retiring Judges being eligible for re-election. In order to get such a system working, some special arrangements would be required during the first years after its adoption. The simplest arrangement would be that at the first election the principle that Judges were elected for nine years should apply, but that exceptionally three of the Judges, who, unless any Judges desired to take the opportunity of retiring, should be selected by lot, should retire after three years, when an election to fill three places would be held, the retiring Judges being eligible for re-election. Similarly, after six years, three of the remaining six Judges selected in the same way would retire and be eligible for re-election. After nine years the remaining three of the original nine Judges

would retire, and thereafter the system of the retirement of one-third of the Judges every three years would work automatically. The result would be that if all the Judges who retired after three and six years were re-elected, they would in fact serve for 12 and 15 years respectively, but assuming that they were suitable for re-election we do not consider this a serious objection.

36. Under the Statute there is no age fixed at which the Judges should retire. We have considered the question whether such an age limit should be introduced, but have come to the conclusion that it is not necessary and is open to serious objections. It can no more be assumed that every Judge who has reached the age-limit is incapable, by reason of age, of performing his functions efficiently than that every Judge who has not reached it is capable of doing so, and it might well turn out to be the case that Judges who were retired under an age-limit were among the most efficient members of the Court. In fact the most serious objection to an age-limit is that it is liable to affect the wrong men. Some of these objections could perhaps be met by allowing the age-limit to be extended in particular cases, but we feel there are insuperable objections to such a system. The only body in whom such a power could be vested would be the other members of the Court, and we feel that in that event either extension would become automatic, in which case the age-limit would in practice disappear, or the duty of deciding whether one of their colleagues should have his term of office extended or not would place the members of the Court in an extremely difficult, if not impossible, position. We feel that a system of election for 9 years, with one-third of the Court retiring every three years, should in practice attain much the same result as a fixed age-limit without being open to its objections.

37. If, however, an age-limit were adopted, we are strongly of opinion that it should not be fixed too low. We consider that the age of 72 should be the minimum, and a number of us would prefer 75.

Section 4.—National and Supplementary Judges.

38. Under Article 31 of the Statute of the Permanent Court of International Justice, Judges of the nationality of each of the contesting parties retain their right to sit in the case. Any party may, if there is no Judge of his nationality on the Bench, choose a person to sit as Judge. Persons so chosen are known as " national " or *ad hoc* Judges.

39. Ideally, this system may be open to objection as detracting from the idea of the permanence and " non-national " character of the Court, but in practice we consider that it is essential to retain it. Countries will not in fact feel full confidence in the decision of the Court in a case in which they are concerned if the Court includes no Judge of their own nationality, particularly if it includes a Judge of the nationality of the other party. Moreover, while national Judges are not, or should not be, representatives on the Court of the case of their own country, they fulfil a useful function in supplying local knowledge and a national point of view.

40. Being accordingly of opinion that the system of national Judges should be retained, we have been led to consider whether it would not be possible to strengthen the position of the Court by giving a more definite status and function to national Judges, and we are of opinion that there would be great advantages in so doing. It is, we consider, very desirable that all the parties to the Statute should feel that they have a direct

interest in the Court, other than that which results simply from participation in its election. But if the number of Judges is reduced to 9, as we recommended in Section 2 above, only a small proportion of parties to the Statute can (except under a regional system such as one of those which we discuss in Chapter XI) be represented at any time by Judges of their own nationality. That this has been so even when the Permanent Court of International Justice consisted of 11 and subsequently of 15 Judges is shown by the following table: —

Countries represented on the Court throughout.	Judges	*Countries represented during part of the Court's existence.*	Judges	*Countries never represented.*
U.S.A. ...	4	Belgium 1931–39 ...	2	Albania.
U.K. ...	2	Brazil 1922–30 ...	2	Argentina.
France ...	2	China 1931–39 ...	2	Australia.
Italy ...	1	Colombia 1931–39 ...	1	Austria.
Japan ...	2	Denmark 1922–30 ...	1	Bolivia.
Netherlands	2	Finland 1938–39 ...	1	Bulgaria.
Spain ...	2	Germany 1931–35 ...	1	Canada.
Cuba ...	1	Poland 1931–39 ...	1	Chile.
		Roumania 1931–39 ...	1	Czechoslovakia.
		Salvador 1931–39 ...	1	Dominican Republic.
		Sweden 1936–37 ...	1	Eire.
		Switzerland 1922–30 ...	1	Egypt.
				Estonia.
				Ethiopia.
				Greece.
				Haiti.
				Hungary.
				India.
				Iran.
				Yugoslavia.
				Latvia.
				Lithuania.
				Luxemburg.
				New Zealand.
				Nicaragua.
				Norway.
				Panamá.
				Paraguay.
				Peru.
				Portugal.
				South Africa.
				Siam.
				Turkey.
				Uruguay.
				Venezuela

NOTE.—Supplementary judges have not been taken into account. The list in the third column contains a few countries who have never ratified the Statute but have taken part in the nomination or election of Judges.

It will be seen that only 19 countries have ever been represented by a Judge on the Court and 33 have never been so represented, and among the latter appear such countries as Norway, Greece, Czechoslovakia, Austria, Portugal, Jugoslavia, Turkey and all the members of the British Commonwealth of Nations other than the United Kingdom.

41. If the number of Judges is reduced, as we propose, from 15 to 9, the likelihood of parties to cases before the Court having to appoint *ad hoc* judges will be *pro tanto* increased, and it will moreover be desirable, as explained in paragraph 32 above, to make provision for a reserve of judges who could be called upon if necessary to ensure that 9 Judges were available

for every case. We suggest accordingly that at each election of the Court each party to the Statute (subject to the exceptions mentioned in paragraph 43 below) should nominate one candidate, who should, of course, comply with the requirements of Article 2 of the Statute (see paragraph 21 above). Candidates so nominated should, by the fact of nomination, become members (though not Judges) of the Court. As such, they would, for a period of 9 years, automatically be the national judges of their respective countries, and would also be available to sit as supplementary judges to make up the number of 9 when required. They would also be available to form regional Chambers or panels (see Chapter XI), if such a system were adopted. When sitting in any of their capacities, they would not require any special appointment, but would sit in virtue of their membership of the Court. In order to give so far as possible to each member of the Court a reasonable chance of sitting as a Judge, we suggest that the Court should prepare panels of the members available to sit as supplementary judges; that the members of each panel, which might be appointed for a period of three years, should be liable to sit when called upon; and that any member of the panel who during that period had sat as a national judge should not be called upon to sit as a supplementary judge.

42. The national judges would not (except under a regional scheme—see Chapter XI) be required to hold themselves permanently at the disposal of the Court, as provided in the case of Judges by Article 23 of the Statute, but they would be bound to sit as supplementary Judges if called upon. They should not be bound by the prohibition in Article 16 not to exercise any political or administrative function or to engage in other professional occupations, but they should be precluded, in conformity with Article 17, from acting as agent, counsel or advocate in any case before the Court, and from participating in the decision of any case in which they had previously taken an active part. They should, in accordance with Article 19 of the Statute, enjoy diplomatic privileges and immunities when engaged on the business of the Court; this would mean that they would enjoy these privileges when called upon to sit as national or supplementary judges, but not otherwise.

43. It will no doubt be considered desirable, particularly if the number of Judges is reduced as we propose, to retain the existing provision (Article 10, second paragraph, of the Statute) under which not more than one national of the same party to the Statute can be a Judge of the Court at any time. When therefore an election is held, it would not be open to those countries who already had a Judge on the Court (who was not retiring) to nominate a candidate. In the case of any country not so represented, its national judge would automatically be its candidate, unless the period of 9 years for which he had originally been nominated had expired.

44. This scheme appears to us to possess the following advantages:—

(*a*) The present position of an *ad hoc* judge is unsatisfactory; he has no regular or permanent status as a Judge of the Court, but is there for the particular case only on the *ad hoc* nomination of his own country. Under the system which we suggest, national judges would not be specially appointed for a particular case; they would have a permanent status as members of the Court, and their whole standing from a judicial point of view would be greatly improved.

(*b*) The fact that each party to the Statute was represented by someone having the status of a member of the Court would of itself give all countries a greater stake in the Court and help to promote interest in it.

(*c*) There would always be available a reserve body of judges for such supplementary purposes as might be required. Under the suggested system there would never be any difficulty in making good any vacancies on the regular Court due to illness, absence on leave or other cause.

(*d*) In the same way a great deal of elasticity would be imparted to the constitution of the Court from the point of view of the future. If at any time it appeared desirable to adopt some kind of regional system in regard to the functioning of the Court (see Chapter XI), the necessary number of judges would be available.

Chapter V.

METHOD OF NOMINATION AND ELECTION.

Section 1.—Nomination.

45. The existing system of nominating candidates for the Permanent Court of International Justice, as provided for in Article 4 of the Statute, is that of nomination by the national groups in the Permanent Court of Arbitration. It was designed to diminish the intrusion of political considerations into the nomination of candidates, and also to spread the responsibility for the choice of a candidate amongst a great number of persons. It seems to be the general view, however, that it has not worked out as intended, and in our opinion it is an unsatisfactory method which should not be continued. The responsibility for the choice of candidates must, we think, rest upon Governments, and we therefore consider that the only satisfactory method is direct nomination by Governments themselves.

46. If the proposals we have made in Chapter IV, Section 4, are adopted, so that all candidates nominated by Governments, if not elected Judges, become members of the Court as national judges, it will follow that each Government can only nominate one candidate, and it seems safe to assume in these circumstances that Governments would only nominate their own nationals. This would dispose of the question, which has given rise to some discussion in the past, whether it should be open to a Government to nominate a person who is not its national as an *ad hoc* judge. We had already come to the conclusion that such a nomination was undesirable.

47. It seems desirable to continue the system established by Article 6 of the Statute of the Court in regard to nominations, by which Governments would be recommended to consult the appropriate judicial, legal and academic authorities in their several countries before making nominations. In this connexion we considered a number of suggestions for making this obligation more definite, but we ended by rejecting anything going beyond the general recommendation provided for by Article 6 of the Statute, for the following reasons. While it is certainly most desirable that a Government which proposes to nominate a candidate for a judgeship of the Permanent Court should not act solely on its own initiative and should obtain the views of competent authority and opinion in its own country, it is important to exclude any possibility that the validity of a nomination, once made, should subsequently be open to challenge on the ground that the necessary consultations had not been effected. To ensure this, it would be necessary to lay down in precise detail what consultations a Government must carry out, so that each Government might be in a position to know its obligations and to demonstrate that they had been complied with. We feel, however, that this would lead to insuperable difficulties, since the conditions in different countries vary considerably and it is not possible to lay down precise universal rules as to what bodies are to be consulted, what

method is to be adopted, or what weight is to be given to the views of different legal authorities. We consider accordingly that the present provision should be retained as a recommendation to Governments

Section 2.—Election.

48. As stated in paragraph 9 above, elections are, under the present Statute, conducted by means of a simultaneous election by the Assembly and Council of the League of Nations. It cannot be assumed that these bodies will be available for the purpose in future, and we have explained in Chapter IV, paragraphs 25 and 26, our reasons for thinking that the system of a double election is no longer necessary for the purpose for which it was originally adopted. If the new General International Organisation contains a body corresponding to the Assembly of the League, it would be possible for the elections to the Court to be conducted by it, but this would constitute an organic connexion between the two bodies of the precise nature which, for the reasons given in Chapter II, we deprecate, at any rate in the early years of the new Organisation. It is therefore necessary to devise some other system.

49. We have considered a suggestion that the selection might be left to be effected by the corpus of candidates nominated by the Governments (see Chapter IV, paragraph 40), on the ground that those concerned would be the best placed from a professional point of view to decide who were most fitted to make up the regular Court, and to impart to it the correct balance in regard to such matters as the number of career judges, professors, &c., who should sit, or the representation of different types of legal thought. Despite the attractions of this suggestion from certain points of view, however, we have come to the conclusion that it is doubtful whether a corpus so constituted would be the most suitable body to select nine of its members to sit as judges of the regular Court, and that to leave the selection to such a body would be liable to place its members in a difficult position and to lead to undesirable features. We have come to the conclusion, therefore, that the responsibility must rest with the Governments to elect the nine Judges of the regular Court from among the corpus of candidates.

50. If the proposals made in Chapter IV, Section 3, above are adopted, there would be an election to fill three places on the Court every three years. To send special representatives to take part in elections at such frequent intervals might be inconvenient for Governments whose seat was at a considerable distance from the place at which the elections were held. If these could take place at the same time and place as a regular meeting of the Assembly of the General Organisation, assuming such a body to exist, this inconvenience would be obviated, since the majority of the Governments concerned would be interested in both and their representatives at the Assembly could take part in the election. It may, however, be considered that election by the members of the Assembly in the course of a meeting of that body would bear so close a resemblance to election by the Assembly itself as to constitute an organic connexion between the General Organisation and the Court, and must therefore be ruled out for the reasons given in Chapter II. If so, it would be necessary that a triennial meeting of the Governments concerned should be held to conduct the elections.

51. The suggestion has been made that the inconvenience of such a procedure might be reduced by the first ballot being conducted in writing, each Government sending its vote to a headquarter Government agreed

upon for the purpose. To conduct all the ballots which would be required in the event of the necessary number of candidates not obtaining the required majority on the first ballot would no doubt lead to undue delay: but, if confined to the first ballot, we think that there is much to be said for this suggestion. It is likely that one or more of the vacant places would be filled as the result of the first ballot, and, as regards the remainder, the voting would show which candidates had to be seriously considered on subsequent ballots, which should considerably facilitate the task of the electors. If so, it might be possible for subsequent ballots to be conducted by the diplomatic representatives of the Governments concerned at some convenient capital, *e.g.*, the seat of the Court, it being open to any Government which desired to do so to send a special representative for the purpose, or to assist its diplomatic representative by attaching to him for the purpose of the election a person acquainted with the merits of the different candidates and the subject as a whole.

52. If, as suggested in Chapter III, paragraph 20, subsequent experience led to the establishment of an organic connexion between the Court and the General International Organisation, the task of electing the Judges of the Court could then be transferred to the appropriate organ of the latter body.

53. An absolute majority of the votes cast would, as at present, be necessary for the election of any candidate. The suggestion has been made that the election of the best candidates would be more likely if something more than a bare majority were required. We feel that this suggestion deserves consideration, but it is difficult to foretell how it would work in practice, and we do not feel able to make any recommendation upon it.

Chapter VI.

JURISDICTION OF THE COURT.

54. The first question in connexion with the jurisdiction of the Court is that of the countries to which it should be open. We feel that, if the Court is to fulfil its function as a "World Court," it must be open to all civilised States. It seems to follow from this that it should be open to all such States, subject to the considerations set out in paragraphs 58 and 61 below, to become parties to the Statute of the Court, whether they are members of the proposed General International Organisation or not. There seems little to be said for going beyond this and allowing particular countries to have recourse to the Court without being parties to the Statute and participating in the responsibility for maintaining the Court, including participation in the elections, and for bearing their share of its expenses. We recommend accordingly that, subject again to the considerations set out in paragraphs 58 and 61, it should be open to all States to become parties to the Statute.

55. The jurisdiction of the Permanent Court is at present defined in the first paragraph of Article 36 of the Statute as comprising "all cases which the parties refer to it and all matters specially provided for in treaties and conventions in force." In the latter part of the same article (the "Optional Clause") the matters as to which States may accept the compulsory jurisdiction of the Court are defined as "all or any of the classes of legal disputes concerning (*a*) the interpretation of a treaty; (*b*) any question of international law; (*c*) the existence of any fact which, if established, would constitute a breach of an international obligation;

(*d*) the nature or extent of the reparation to be made for the breach of an international obligation." It is not clear what the relationship between these two definitions was intended to be, nor whether the latter was regarded as narrower than the former. It will be noted that the words in the former definition "all cases which the parties refer to it," &c., are not limited, as is the latter, either by the word "legal" or by any enumeration of classes of cases with which the Court is competent to deal.

56. We feel that this very wide definition of the competence of the Court is open to objection. Nothing seems to us more important, from the point of view of the prestige of the Court and of enabling it to play its proper part in the settlement of international disputes, than that its jurisdiction should be confined to matters which are really "justiciable," and that all possibility should be excluded of its being used to deal with cases which are really political in their nature and require to be dealt with by means of a political decision and not by reference to a court of law. It cannot be denied that there have been cases in the past where this has been done or attempted, with results which show how desirable it is that any such possibility should be excluded in future; and it may well be considered that in the past the distinction between matters which can be properly referred to a court of justice and those which can only be settled by a political decision, has been insufficiently appreciated, and that there were signs of confusion between the two in some of the attempts made in the period between the two wars to construct all-embracing schemes for the settlement of international disputes.

57 We feel, therefore, it to be very desirable that the jurisdiction of the Court should be defined in more precise terms. The "Optional Clause" definition, quoted in paragraph 55 above, appears to us to constitute a satisfactory definition of what the Court's jurisdiction should be; but if it is thought that it is undesirable to depart completely from the definition in the first paragraph of Article 36 of the Statute, to which no serious objection has been taken in the past, we recommend that it should be limited by inserting the word "justiciable" before both "cases" and "matters."

58. The next question which arises is whether the jurisdiction of the Court should be compulsory; *i.e.*, whether the Statute should oblige the parties to it to have recourse to the Court in all or some of the matters falling within its competence, so that acceptance of such jurisdiction would result automatically from acceptance of the Statute. We are definitely of the opinion that, for the present, at any rate, this question must be answered in the negative. We are anxious to see the widest possible recourse to the jurisdiction of the Court, but we feel that it would, in existing circumstances, be premature to attempt to impose compulsory jurisdiction by means of the Statute itself. We feel that the insertion of such a provision might, in existing circumstances, deter a number of States from becoming parties to the Statute; particularly since, if accession to the Court is open to all States, the effect would be that every party would be bound by the compulsory jurisdiction of the Court in regard to justiciable disputes with every other State. We consider that this is an obligation which a number of countries whose acceptance of the Statute is most desirable would, at present at any rate, be unable to accept. We recommend accordingly that the Statute should contain no provision which would automatically impose the jurisdiction of the Court on the parties thereto in cases within its competence.

59. The exclusion, however, of such an obligation from the Statute would not mean that States could not accept a corresponding obligation

by other means. It has become a common practice to insert in particular treaties, multilateral or bilateral, a provision for the reference to the Permanent Court of disputes concerning the interpretation or application of the treaty, and this practice will doubtless continue. Moreover, it is always open to two or more States to accept a general obligation to have recourse to the Court by agreement between themselves. This was, indeed, the object and effect of the "Optional Clause," and we consider, therefore, that this clause should be retained in the Statute. The process of accepting the "Optional Clause" had become wide-spread before 1939, and though the position may require reconsideration in the light of the war and its consequences, we think it should certainly be open to States, who desire to accept the compulsory jurisdiction of the Court as between themselves, to do so in this way.

60. Finally, while we consider that acceptance of the compulsory jurisdiction of the Court should not be made a condition of accession to the Statute, this would not prevent its being made, in such circumstances as the States concerned considered proper, a condition of membership of a future General International Organisation. The Constitution of such an Organisation may well contain provisions for the settlement of disputes between its members, and, if so, it would be perfectly natural to lay down there the conditions in which the members of the Organisation bound themselves to have recourse to the Court for the settlement of justiciable disputes between themselves. Since it is not, as we understand, contemplated that, for the present at any rate, membership of the Organisation would be open to any State that chose to apply for it, the difficulties referred to in paragraph 58 above should not exist, or should exist at any rate to a much lesser degree. Moreover, the question of the means by which decisions of the Court should, if necessary, be enforced is eminently one which could be dealt with in the Constitution of the Organisation, but not in the Statute of the Court. We feel that it is by some such means, rather than by an attempt to impose compulsory jurisdiction as a condition of acceptance of the Statute, that the universalisation of the jurisdiction of the Court is likely to be attained.

61. If the above view be accepted, the question whether exceptions to the compulsory jurisdiction of the Court should be permitted will not arise in connexion with the framing of the Statute. It would arise, in the circumstances suggested in paragraph 60, in connexion with the constitution of the General International Organisation, but that is outside our terms of reference. Perhaps, however, we may be permitted to say that, in our opinion, the possibility of certain reservations, at any rate, would have to be admitted; some countries would certainly desire to maintain certain reservations (*e.g.*, those relating to disputes which arose before a certain date) which they made when accepting the "Optional Clause"; and there may well be other matters, such as disputes arising out of the present war or in consequence of the peace-keeping activities of the General International Organisation, as to which the possibility of reservations would certainly have to be admitted.

62. The law to be applied by the Permanent Court is defined in Article 38 of the Statute as follows:—

"The Court shall apply:—

(1) International conventions, whether general or particular, establishing rules expressly recognised by the contesting States;

(2) International custom, as evidence of a general practice accepted as law;

(3) The general principles of law recognised by civilised nations;

(4) Subject to the provisions of Article 59, judicial decisions and the teachings of the most highly qualified publicists of the various nations, as subsidiary means for the determination of rules of law.

This provision shall not prejudice the power of the Court to decide a case *ex æquo et bono*, if the parties agree thereto."

The wording of this provision is open to criticism and it would not be difficult to make suggestions for improving it; but on the whole the difficulties resulting from it do not seem to be of a sufficiently serious character to necessitate any change. It seems to have worked well in practice, and we consider that any attempt to alter it would cause more difficulties than it would solve.

63. The only other provision of the Statute relative to the jurisdiction of the Court which we think it necessary to mention is Article 59, which provides that "The decision of the Court has no binding force except between the parties and in respect of that particular case." The effect of this provision has, in our opinion, sometimes been misinterpreted. What it means is not that the decisions of the Court have no effect as precedents for the Court or for international law in general, but that they do not possess the binding force of particular decisions in the relations between the countries who are parties to the Statute. The provision in question in no way prevents the Court from treating its own judgments as precedents, and indeed it follows from Article 38 (quoted in paragraph 62 above) that the Court's decisions are themselves "subsidiary means for the determination of rules of law." It is important to maintain the principle that countries are not "bound" in the above sense by decisions in cases to which they were not parties, and we consider accordingly that the provision in question should be retained without alteration.

Chapter VII.

ADVISORY OPINIONS.

64. The jurisdiction of the Permanent Court of International Justice to give advisory opinions arose from Article 14 of the Covenant of the League, which provided that "The Court may also give an advisory opinion upon any dispute or question referred to it by the Council or by the Assembly." The procedure for giving advisory opinions is regulated by Chapter IV (Articles 65–68) of the Statute of the Court.

65. Some of us were inclined to think at first that the Court's jurisdiction to give advisory opinions was anomalous and ought to be abolished, mainly on the ground that it was incompatible with the true function of a court of law, which was to hear and decide disputes. It was urged that the existence of this jurisdiction tended to encourage the use of the Court as an instrument for settling issues which were essentially of a political rather than of a legal character and that this was undesirable. Attention was drawn to instances of this which had occurred in the past. Subsidiary objections were that the existence of this jurisdiction might promote a tendency to avoid the final settlement of disputes by seeking

opinions, and might lead to general pronouncements of law by the Court not (or not sufficiently) related to a particular issue or set of facts.

66. Despite these considerations we have come to the conclusion that the jurisdiction to give advisory opinions ought to be retained and ought even to be enlarged. In the first place it is not correct to say that a jurisdiction of an "advisory" nature is inconsistent with the proper function of a court of law. The legal systems of certain countries contain a procedure whereby certain matters can be referred to the courts for an opinion, or for a declaration of what the law is, or what the rights or status of the applicant are or would be under a given set of circumstances. The exercise of this jurisdiction by municipal courts has not, so far as we are aware, led to difficulty, and has proved of undoubted utility.

67. Secondly, it is clear that a General International Organisation, if it possesses anything in the nature of a regular Constitution, will require authoritative legal advice on points affecting the Constitution, the rights and obligations of Member States and the interpretation of the instrument setting up the Organisation. There are distinct limits to the extent to which such matters can be dealt with internally (*e.g.*, by the legal section of the Organisation's Secretariat) or by such means as reference to an *ad hoc* committee of jurists. League experience has shown the necessity of having an authoritative standing tribunal to which, in suitable cases, questions of this kind can be referred for an opinion. On this ground alone, therefore, we think that the jurisdiction of the Court to give advisory opinions must be retained.

68. In the third place, there are reasons which make it desirable to allow two or more States, acting in concert, to obtain an advisory opinion. They are as follows:—

(*a*) From an international point of view, it seems desirable to provide a procedure whereby the legal rights and position of parties can be determined or at any rate assessed, before any difference of opinion between them has ripened into an issue or definite dispute which can only be settled by actual litigation.

(*b*) It may be useful to countries to be able to ascertain their legal position without involving themselves in a judicial decision binding on them as such and requiring immediate execution.

(*c*) The faculty to ask for an advisory opinion may be very helpful to parties engaged in negotiations (*e.g.*, for a treaty or for the settlement of some outstanding issue) where the requisite basis for negotiation does not exist until the legal rights of the parties, or the correct interpretation of some existing instrument, has been definitely ascertained.

(*d*) There may well be cases in which special relations between countries render them reluctant to appear before the Court as apparently hostile contending parties in a litigation, but where the existence of a "friendly dispute" between them nevertheless requires some form of disposal by legal means.

(*e*) Whereas an International Organisation can to some extent meet its needs by referring questions to an *ad hoc* committee of jurists, this procedure is difficult, if not impossible, for States. Reference to some *ad hoc* tribunal is no doubt possible, but if the Court exists it is best that it should be used, and its pronouncements will carry greater weight than those of any such tribunal.

69. In the light of this conclusion, the subject of advisory opinions resolves itself mainly into two questions, whether the scope of the jurisdiction should remain as it is at present, or be enlarged; and what safeguards should be instituted to control it and to prevent its misuse. The first of these questions is, in essence, whether the faculty to request advisory opinions should be confined to the executive organs of any future General International Organisation, or should be extended to other bodies, and to individual States. The second question concerns the steps to be taken to ensure what we are all agreed are most important requirements, namely, that only questions of law should be referred for an advisory opinion, and that such questions should not be of a merely general or abstract character, but should relate to some definite issue or circumstance, and be based on an agreed and stated set of facts. Failing some such control, there is a risk that the Court may be used for making pronouncements on political issues, or in a semi-legislative capacity for making general statements or declarations of law, instead of giving advice as to what the law is in relation to a defined issue or set of facts.

70. Concerning the scope of the faculty to seek advisory opinions, we are agreed that there is no reason to confine it to the executive organs of the future General International Organisation, and that it could usefully be extended to other associations of States such as the International Labour Office, the Universal Postal Union, &c. Unless the list of such Associations is settled for this purpose, either in the Statute of the Court or from time to time by the General International Organisation, it would be for the Court itself to decide whether the body concerned had the international and intergovernmental character necessary to give it the capacity to ask the Court for an advisory opinion.

71. We are also agreed that, provided the necessary safeguards can be instituted, there would, for the reasons given in paragraph 68, be considerable advantage in permitting references on the part of two or more States acting in concert. Applications by an individual State *ex parte* could not be permitted, for, given the authoritative nature of the Court's pronouncements, *ex parte* applications would afford a means whereby the State concerned could indirectly impose a species of compulsory jurisdiction on the rest of the world. In addition, the Court must have an *agreed* basis of fact on which to give its opinion.

72. With regard to the question of how the necessary control can be secured over matters referred to the Court for an advisory opinion, so as to ensure that only questions proper to be put to the Court are heard by it, we have considered whether all applications should pass through and be required to receive the fiat of the appropriate organ of the General International Organisation. The objections to this are, first, that the nature and functions of such an Organisation are at present unsettled; secondly, that some control will require to be established over the Organisation's own applications for advisory opinions.

73. On the whole therefore it seems to us desirable to leave the necessary control to be exercised by the Court itself. As explained in paragraph 56, we attach the greatest importance to the Court's jurisdiction being confined to matters which are really "justiciable," and this applies equally to advisory opinions. It would, accordingly, be for the Court to decline to deal with an application directed to political and not legal issues, or to require a restatement of the case so as to confine it to pure questions of law or treaty interpretation. The Court would equally refuse to consider

the application if the facts were not agreed, or were inadequately stated, or if the questions put were of too general a character, not involving concrete issues in which the parties were actively interested. In the same way the Court would refuse to allow the procedure by way of advisory opinions to be used as a means of reopening questions already judicially determined, or for pronouncing on questions of municipal law where these lay solely within the competence of domestic tribunals.

74. All these would be matters to be provided for in the Statute of the Court. In addition, it would be necessary to ensure that it was not open to two States, acting in concert, to obtain a pronouncement from the Court on a matter of interest to other States (*e.g.*, the interpretation of a multilateral convention) where the latter had had no opportunity of intervening. We consider that this point would be adequately met by maintaining the procedure of notification by the Registrar of the Court set out in the existing Statute.

75. If such a scheme be adopted, we see no objection to allowing two or more States, acting in concert, to apply direct to the Court for an advisory opinion.

Chapter VIII.

PROCEDURE.

Section 1.—General.

76. To enter fully into questions of procedure would be a task of some magnitude, and we have not considered it necessary to go into detail. Our main conclusion is that the procedure of the Court would best be left to be settled by the Court itself by Rules of Court. Matters of procedure should only be dealt with in the Statute of the Court where they involve fundamental points of principle which it is desired to settle once and for all. This is very largely the scheme followed by the existing Statute, but the section on procedure nevertheless contains a number of provisions which could without inconvenience (and in some cases with advantage) be eliminated and left to be dealt with by Rules of Court.

77. Subject to this, we think that little change is required in the procedure of the Court, which has worked satisfactorily in practice. One question to which we have given consideration is that of the proper function of the oral proceedings before the Court. We have the impression that in certain cases these have involved some waste of time, the representatives of the parties doing little more than repeat arguments already fully (and often more adequately) set out in the written pleadings. The latter must always constitute the main part of any proceedings before the Court, but we do not on that account suggest the elimination of the oral proceedings, which have considerable psychological value and act as an important focussing point for the work of the Court. We think, however, that there would be some advantage in confining the oral proceedings to two main classes of matters, namely, (*a*) points raised or made in the last written pleading to which the other party had not yet had an opportunity of replying; (*b*) points on which the Court had itself indicated to the parties in advance that it would like to hear oral arguments. To assist in focussing the oral proceedings we should also like to see a more extensive adoption of the existing practice whereby Judges may ask specific questions of the advocates in the course of the hearing, instead of simply listening in silence to their speeches. But the above are all matters which cannot usefully be

dealt with by definite written rules and must be left to the discretion of the Court.

Section 2.—Language.

78. The question of language is eminently one of principle which should be dealt with, as at present, in the Statute of the Court. We see no reason to alter the existing rule, set out in Article 39 of the Statute, that French and English are the official languages of the Court, or the provision there made for employing, in certain cases, one only of these languages or some other language. Questions of translation, on the other hand (and at oral hearings of interpreting one language into the other), should we think be regulated by Rules of Court, the Court being best placed to decide, with reference to each particular case, how far translations, &c., are necessary or can be dispensed with.

Section 3.—Method of producing Judgments.

79. Subject to one point, we think that the present method of producing the judgments of the Court as provided for in Articles 55 and 58 of the Statute is satisfactory. The main provisions covered by these Articles are that decisions are given by a bare majority, the President or his Deputy having a casting vote in the event of an equality of votes; that the judgment of the Court is to state the reasons on which it is based and the names of the Judges who concurred in it, and that any Judges who dissent from the opinion of the majority may deliver a dissenting judgment.

80. We have considered the suggestion that more than a bare majority should be required for a judgment of the Court. It has been pointed out that when the Court consisted of 15 Judges it has sometimes happened that judgments were given by say only 8 votes against 7, and that the fact of a large body of votes being cast against a decision of the Court tends to weaken the authority of the Court's decisions. If, however, the recommendation which we make elsewhere (see Chapter IV) is adopted, so that there would be not more than 9 regular Judges, this objection to the bare majority rule should be sensibly diminished. In view of this, and of the difficulty of ensuring a definite decision (which is after all the main object of the proceedings) by any other means than the majority rule, we have decided against recommending any departure from it.

81. The foregoing observations bring us to the question of dissenting judgments. Some of us were inclined to think at first that these should be abolished, on the ground that the main object of the proceedings was to secure a decision and to announce the reasons in support of it, so that dissenting judgments were, in strictness, both irrelevant and liable to weaken the authority of the actual decision. Despite these considerations, however, we are of opinion that the system of dissenting judgments, which we believe to have proved satisfactory in the experience of the Permanent Court of International Justice, should be maintained for the following reasons:—

(*a*) In any matter sufficiently difficult and controversial to come before the Court at all, it is inherently improbable that all the members of a Court of 9 or 11 Judges will be unanimous in their view. The appearance of unanimity produced by the absence of dissenting judgments would therefore to some extent be false and misleading.

(*b*) If the Court was not in fact unanimous, this is almost certain to become known, together with the names of those Judges who did not concur in the majority view. In these circumstances, we

think it far better that those who dissent should say so in open court and give their reasons.

(c) We think that dissenting judgments have a very considerable political and psychological value. It is a much more satisfactory state of affairs from the point of view of the losing party if the arguments in support of its case are set out in a reasoned judgment, so that it is plain that they have been given full weight.

(d) From the point of view of the development of international law, dissenting judgments are also of value. They act as a useful commentary on the decision of the Court itself, the precise point and bearing of which is often brought out more strongly in the light of the dissenting judgments. In addition, the latter often clarify subsidiary points of interest and importance which were not dealt with in the judgment of the Court because not directly necessary for the purpose of its findings.

82. For these reasons we would not only preserve the system of dissenting judgments, but go further than the relevant provision of the existing Statute, which only confers a right on dissenting Judges to deliver a separate opinion. In our view it should be obligatory on any Judge who dissents from the majority to state his reasons for so doing. There would of course be nothing to prevent two or more dissenting Judges from agreeing on a common opinion.

83. This brings us to the question of the decision of the Court itself. According to the present procedure, each Judge after conferring with his colleagues writes an individual opinion, and, it having thereby been ascertained where the majority lies, the majority opinions are then combined into one judgment. On the other hand, except in those cases where two or more dissenting Judges prefer to combine, the dissenting judgments appear as the individual opinions of their authors. This procedure may lead to the result that the dissenting judgments read more cogently and persuasively than the decision of the Court itself, for the reason that they are individual productions, and consequently have a force and cohesion which may be absent from a judgment which represents a synthesis of a number of individual opinions. Moreover, we think that the present system of producing the jugdments of the Court might cause a tendency on the part of some Judges to rely unduly on their colleagues and to decide in accordance with what seems likely to prove the majority view.

84. The obvious way to get rid of these difficulties is to require every Judge, whether of the majority or the minority, to state his views in a reasoned opinion, there being of course nothing to prevent two or more Judges, whether of the majority or the minority, from concurring in a common statement. In theory this might lead to all the majority Judges concurring in one statement as they do at present, but in practice we think it unlikely that most Judges would not avail themselves of the right to give their individual views. If this recommendation were adopted, the actual judgment of the Court would be confined to the "dispositif," *i.e.*, the formal order or decision relevant to the matter before the Court. While, however, we are all agreed that each Judge should state his reasons in detail, some of us feel that the "dispositif" should also be accompanied by a brief statement of the essential motives for the decision of the Court.

CHAPTER IX.

APPEALS.

85. The decisions of the Permanent Court of International Justice are final and not subject to any appeal, and this position should certainly be maintained. If the Court consists, as we hope, of the best available Judges, there can be no object in any appeal from its decisions.

86. It is necessary to consider whether the Court should act as a court of appeal from other tribunals. The suggestion has been made that in the event of a number of countries instituting local or regional tribunals, such as the Central American Court of Justice which existed from 1908 to 1918, it might be desirable to provide for an appeal to the Court from such tribunals. This suggestion does not, however, commend itself to us. We feel that in practice there would be an appeal in every case of any importance, so that the only effective decision would be that of the Court, and the almost inevitable result, we fear, would be that the proceedings in the tribunals of first instance would come to be regarded as a waste of time and money, and that the tribunals themselves would consequently fall into disrepute.

87. Another suggestion which has been made requires consideration. Under the peace treaties of 1919 a large number of Mixed Arbitral Tribunals were established to deal with questions under the economic provisions of those treaties. The Tribunals had to interpret the provisions in question, and it almost inevitably resulted that, on occasion, the same provision was interpreted by different Tribunals in different ways. It has accordingly been suggested that in the event of a similar system being adopted in the peace settlement at the end of the present war, such divergencies should be avoided by providing an appeal from the Tribunals in question to the Court.

88. We are definitely of the opinion that it would be undesirable to give a general right of appeal from such tribunals to the Court. If this resulted in appeals being brought in a large majority of cases, this might well produce the same results as those indicated in paragraph 86 above in relation to local or regional tribunals, especially as a direct reversal of the whole judgment of such a tribunal would tend to undermine its authority and to discourage the judges. Moreover, a considerable part of the work of such tribunals would consist of deciding questions of fact and of municipal law, with which they would be better qualified to deal than the Court would. We consider, therefore, that even if an appeal to the Court from such tribunals was considered desirable it should, in any case, be confined to questions of treaty interpretation and of international law.

89. The question of whether and in what circumstances such an appeal should be allowed would fall to be decided, not in the Statute of the Court, but in the instrument which set up the tribunals in question. We do not, therefore, think it our duty to make any recommendation about it. We should, however, point out that the parties to proceedings before such tribunals would in all probability include private individuals. We have not considered it within our terms of reference to discuss whether the principle, laid down in Article 34 of the Statute of the Permanent Court, that only States can be parties to cases before it, should be maintained. But if it is, it would be necessary to provide that no appeal should lie to the Court unless the Government of one of the parties took up the case, in which

event the Governments of the parties, and not the parties themselves, would participate in the appeal proceedings before the Court. Strictly speaking, therefore, these would be new proceedings, not an appeal from the Court of first instance.

90. The suggestion has been made that, in view of the advantage of obtaining an authoritative interpretation of the relevant provision before instead of after the tribunal concerned has given its decision, it might be possible to employ a system of "evocation," such as was adopted in Article 588 of the Geneva Convention relating to Upper Silesia of the 15th May, 1922. Under that system any party to a suit or an administrative dispute before the national courts of Poland or Germany in the plebiscite area, the solution of which depended on a provision of the Geneva Convention, might request that the interpretation of that provision should be given by the Arbitral Tribunal of Upper Silesia instead of by the national court before which the case was pending. This system is understood to have worked well, and provided that the right to request "evocation" were, for the reason given in paragraph 89 above, confined to the Governments of the parties to a case, it might help to ensure uniformity of jurisprudence as regards the interpretation of the relevant treaties, without giving a general right of appeal from the decisions of the tribunals of first instance.

Chapter X.

FINANCE.

91. Articles 32 and 33 of the present Statute provide that the expenses of the Court are to be borne by the League of Nations in such manner as shall be decided by the Assembly on the proposal of the Council, and that the salaries and allowances of the Judges are to be fixed by the same method. The Assembly is also to fix the salary of the Registrar on the proposal of the Court, and the conditions under which retiring pensions may be given to Judges and the Registrar.

92. If effect is given to our recommendation (see Chapter III) that there should not in future be any organic connexion between the Court and any General International Organisation such as the League, it will follow automatically that the system whereby the finances of the Court are part of the budget of the League will cease, and will not be replaced by any similar system. Provision for financing the Court and fixing the salaries of the Judges, Registrar, &c., will have to be made in the Statute, or by means of some collateral agreement, and the salaries of the Judges and its other expenses will have to be borne directly by the Governments parties to the Court.

93. We would observe, however, that even if the Court were to be organically connected with some General International Organisation it would not follow that such connexion need extend to the realm of finance, and in our opinion it should not do so. While it was no doubt convenient for the Court to be able to draw on the funds of the League, we think that all those who had experience of the inter-connexion of the Court's finances with those of the League will agree that the position was unsatisfactory. A number of members of the League were seriously in arrears with or failed to pay their contributions to the budget of the League, but went on enjoying all the benefits of adherence to the Court. Other countries, which had ceased to be members of the League, and were thus under no liability to contribute to its budget, also continued to adhere to the Court;

yet there was no machinery for collecting any direct contribution from them towards the expenses of the Court, which continued to be provided for through the League.

94. In addition to the foregoing considerations of a practical order, we think there are objections of principle to the Court being financed through any General International Organisation, as tending to reflect on its independence. It would, we think, be altogether preferable that, whatever the character of any connexion the Court might have with the General International Organisation, its finances should be placed on a separate and self-contained footing.

95. We do not think this is the place to make detailed recommendations concerning the precise scale of salaries and allowances of the Judges, &c. The immediate situation could be met by providing that these should continue on their existing scale for the time being. We think that provision should be made for ensuring that salaries, &c., are not affected by any future fluctuations in the value of the particular currency in which they are paid.

96. It will be necessary to have regard to the accrued pension rights of past or existing Judges and officials of the Permanent Court of International Justice who have, or will have, already earned them, and to make due provision for such rights. This, however, forms part of the general question of the existing financial obligations of the League of Nations, and we only desire to draw attention to it.

Chapter XI.

REGIONAL CHAMBERS.

97. The preceding chapters of this Report proceed upon the assumption that the future International Court will, like the Permanent Court of International Justice, be a single body possessing universal jurisdiction, but with its seat in Europe. In the course of our discussions, however, the suggestion has been made that this conception may not altogether satisfy the needs of the world, and that it may be desirable to consider the possibility of the creation of something in the nature of a regional system for the Court. The considerations which have been adduced in support of this idea are as follows.

98. It has been suggested that a Court which is established in Europe and is, judging from past experience, likely to be predominantly European in composition, may not be considered by non-European countries as altogether meeting their requirements. Without going into the question of whether it is permissible to speak of different legal systems in relation to international law, there are in fact differences between the points of view of lawyers of different parts of the world in approaching problems of international law, and these differences are not likely to be adequately represented in a single Court with a restricted number of judges, which might not be completely in touch with the particular conditions of fact and law existing in non-European countries. It has been urged in this connexion that this view is supported by the history of the Permanent Court of International Justice, where the number of Judges was increased from 11 to 15 mainly with the object of providing a larger representation of the different interests concerned. And it has been urged that the reduction in the number of the regular Judges of the Court which we propose

in Chapter IV, Section 2, would be liable to increase the strength of such feelings.

99. In the proposals relating to national Judges made in Chapter IV, Section 4, we have endeavoured to meet the above considerations so far as is possible within the framework of a single Court. Some of our members, however, doubt whether those proposals go far enough to meet the point of view indicated in paragraph 98, and feel that unless further steps are taken there may be a risk of non-European countries losing interest in the Court and being tempted to set up separate judicial organisations.

100. This view is not accepted by all the members of the Committee, and in any case we are not in a position to judge to what extent it is likely to be held, nor whether it would be considered necessary or desirable to make provision to meet it. But we think it may be useful to set out two proposals which have been tentatively made in the course of our discussions, so that they may be available for consideration if desired. It will be seen that the first proposal is much more far-reaching than the second. It should be clearly understood that the Committee as a whole makes no recommendation in favour of either of these proposals, which are inserted simply in order to indicate possible means of dealing with this problem, should it be considered necessary to do so. Consequently the present chapter stands in a different position from the rest of our Report, and no reference to it appears in the summary of our recommendations which follows in Chapter XII.

First Proposal.

101. The members of the Court, who, as proposed in Chapter IV, Section 4, would be all the national Judges nominated by the Governments parties to the Statute of the Court, would hold a first assembly to which they would bring declarations from their respective Governments, stating whether each Government desired its national Judge to sit as a Judge at the headquarters of the Court at the Hague, or whether it would prefer him to be attached to a separate chamber of the Court to be set up outside Europe. These governmental declarations would have only advisory force and would not be binding on the assembly of the members of the Court. Any Government would also be free to leave the matter open, should it have no particular wishes. The assembly of the members of the Court would proceed to the examination of the desiderata of the Governments with regard to which chamber of the Court each national member should belong, and would (with the assistance of a small Committee established for the purpose) work out plans for the constitution of the different chambers of the Court. This done, they would proceed by a certain specified majority —*e.g.*, two-thirds of the votes cast—to the setting up of the separate chambers.

102. The task of the assembly of the members of the Court would thus be not to elect Judges, but to assign to each Judge the work for which he should be particularly well prepared.

103. On the assumption of the creation of three chambers of the Court in all, one at the headquarters at The Hague and two outside Europe, each one needing the co-operation of some 12 or 13 Judges to ensure a Court of 9, this scheme would give the majority of the Governments an opportunity of seeing their national Judges actually participating in the work of the Court. Most of the national Judges would be nominated for membership of one or another of the chambers of the Court. As some

might still not be required for actual Court business, they might be given special tasks outside the routine work of the Court—in particular, as lecturers on matters of international law at universities throughout the world. Some might be asked to undertake special research work of interest to the Court. If it were found unnecessary in the beginning to have so many as three chambers, a greater number of the members of the Court would be free to be used in this way. A large number of the Governments would still have the satisfaction of seeing one of their nationals participate in the judicial work of the Court.

104. The system here outlined would involve additional expense. This consideration does, however, not seem sufficiently important to prevent its realisation if the scheme itself were approved.

105. Each chamber would be competent to deal with cases brought against a State within its region irrespective of the geographical location of the State which brought the case before the Court. If both parties to a case agreed, they should be free to choose the chamber where the case should be dealt with. If a Government happened to have cases simultaneously pending before more than one of the chambers of the Court, that Government would be entitled to appoint a second national Judge for that particular contingency.

106. It may be argued that this regional scheme would allow the different chambers to act on separate lines, thereby endangering the unity of international justice and jurisprudence. This would be, indeed, a most serious drawback. Arrangements would therefore have to be made whereby the chambers would be brought to co-operate closely. This would not be achieved through a system of appeals from the other chambers to the Court at The Hague. The judgments of each chamber must be final. But it might be possible to arrange for two or three of the Judges of each chamber to hold office on that chamber for a shorter period—say, 3 years—than the other members of the same chamber, who would sit for 9 years. Each chamber would then have a flow in and out of members from other parts of the world. These ambulating Judges might be chosen from amongst the junior members of the Court. Further, to secure unity of the Court, it would seem desirable to nominate a President to reside at the headquarters of the Court, and two or three Vice-Presidents, each of whom would preside over one of the chambers. The Registry of The Hague should, under the authority of the President, undertake the co-ordination of the work of the different chambers and see that every case before one of the chambers was brought immediately to the notice of the others, with full particulars, thus enabling all the members of the Court to follow closely the work of each chamber. It might perhaps be possible to lay down the rule that each chamber, in cases considered by it to be of sufficient importance, could send one of its own Judges to sit as an additional Judge on the chamber before which the case was heard, with full power to participate in the deliberation and vote.

107. If such a regional system were adopted, the problem of advisory opinions would require to be re-examined. It seems appropriate to concentrate, as far as circumstances permitted, advisory opinions at the headquarters of the Court at The Hague, leaving it to the President of the Court, in consultation with a small special committee of members of the Court nominated by him, to decide, on the circumstances of the case, where the matter should be dealt with.

108. It is suggested that such a regional scheme should not be considered as opposed to the unity of a Court of International Justice, but rather as a means of enabling such an institution to extend its activities throughout the world by adapting its organisation and procedure for that purpose. As suggested above, only through some such regional system can it be hoped to prevent the development in the future of competing international jurisdictions for non-European parts of the world.

Objections to the First Proposal.

109. Even on the assumption that it is desirable to give some effect to considerations of a regional character in the constitution and working of the Court, the following objections may be felt to the particular method of producing this result which has just been described: There must necessarily be a certain inconsistency between a "regional" approach to the problem of a permanent international court of justice and the normal approach, which is concerned mainly with how to secure the most satisfactory Court considered simply as a Court. The regional approach is bound to be based largely on considerations of a political and psychological character, and its principal aim would be to popularise the Court by giving it a local colour, and by associating the maximum number of States in direct participation in its activities. However important these desiderata may be, their achievement would be far too dearly purchased if it were to involve the sacrifice of the unity and cohesion of the Court as an institution, its central direction and the uniformity and continuity of its jurisprudence—everything, in fact, that is implied in the conception of a single Permanent Court of International Justice.

110. It may be felt that the regional scheme described in paragraphs 101–108 above, despite its attractions from certain points of view, would tend to have precisely the result feared. It would clearly give the maximum play to considerations of a regional character and by that very fact would make it more difficult to maintain the inner cohesion of the Court. The main objections to the scheme may be stated as follows:—

(*a*) With a single Court of nine Judges (or even with a somewhat larger Court so long as it was a single Court) a very high standard of judicial integrity and competence should be procurable, and consequently a very authoritative standing for the Court and its decisions. On the other hand, with (in effect) two or three Courts (even though nominally different chambers of a single Court) and with a total number of Judges of about 30 or 40, there would be an inevitable decline in this standard: or at any rate, it would become much more difficult consistently to achieve the standard to be expected with a single Court.

(*b*) There would be a considerable likelihood that one (though not necessarily always or at all times the same) chamber of the Court would prove a good deal "stronger" than its fellows. This would lead to invidious comparisons between the decisions given by the different chambers, and possibly to undesirable attempts (*e.g.*, by the mutual consent of the parties) to secure hearings before the "strong" chamber rather than the appropriate regional one. Any process calculated to bring certain chambers into disrepute or others into marked prominence would certainly tend to have a disruptive effect on the life of the Court as a whole and as an institution.

(*c*) The scheme under discussion is, in essence, one for a number of separate Courts, and lacks adequate provision to ensure uniformity

and continuity of jurisprudence. Although it may contemplate a central registry and administrative system for all the chambers, they would have to be judicially co-equal and autonomous; yet the surroundings and the political, legal and psychological "climates" in which the chambers would sit and work would differ appreciably, and the personnel of each chamber would (even with a certain amount of interchange between the chambers) be drawn, for the most part, from an entirely different part of the world from that of the others. In these circumstances, it is hardly possible that considerable divergencies between the practice, procedure and jurisprudence of the various chambers should not develop. These divergencies could easily widen into differences or even positive contradictions, a result which (given the equal authority of each chamber) would not only undermine the standing of the Permanent Court as an institution, but also the moral force of the individual decisions. These might be binding in the particular case between the parties thereto, but so long as there was a possibility that another chamber might reach a different conclusion on a similar set of facts, the decision would lack finality from the general legal and judicial standpoint.

(*d*) No doubt the suggested interchange of judges and other special measures proposed in paragraph 106 above would assist in promoting uniformity and continuity of practice and jurisprudence between the various chambers, but it is doubtful whether these steps would be more than palliatives. In this connexion two factors have to be borne in mind. In the first place, although there may be great differences in the conditions obtaining in different parts of the world, there is a considerable similarity between the types of justiciable disputes between States calling for decision by an International Court. Secondly, the issues involved in these cases are usually of a highly controversial character; if they were not, and if they did not involve difficult and possibly to some extent unsettled points of law and fact, it is unlikely that reference to the Permanent Court would be required at all. In these circumstances, and in view of the fact that decisions might be given by a bare majority, Courts of equal honesty and competence might well reach quite different conclusions. In a situation in which there are two or perhaps three Courts, all judicially autonomous and, formally, of equal authority, and all dealing with the same kind of point, contradictory or anyhow inconsistent decisions must be expected. Such a result would probably lead to a demand for a "super-Permanent Court" to sit as a court of appeal from the decisions of the regional chambers, *i.e.*, in effect the same proposal as that which we rejected in Chapter IX, paragraph 86. There is, therefore, reason to fear that the scheme under discussion would work out in very much the same way as the old Permanent Court of Arbitration, which, by reason of its constitution, inevitably failed to give adequate effect to the principles of consistency and continuity.

(*e*) The main object of any regional scheme must be to promote confidence in the Court by bringing it, both physically and from the standpoint of atmosphere, nearer to the countries who may appear as litigants before it; and by increasing the chances that litigants will find judges of their own nationality acting as regular Judges of the Court. There is, however, no object in promoting

confidence in these directions if this involves a degree of decentralisation liable to lead to an equal or greater loss of confidence in others, by lowering the standard of judicial competence and by casting doubt in various ways on the legal merits or finality of the decisions given. Unless a regional scheme is such as to be plainly free from these defects, it must defeat its own object and should be rejected.

(*f*) A subsidiary objection to the particular scheme set forth in paragraphs 101–108 is that the various tasks imposed on the Assembly of National Judges, as described in paragraphs 101 and 102, might well prove to be of a highly invidious character, and to place those concerned in a position of considerable embarrassment.

Second Proposal.

111. An alternative scheme, which would appear to give a considerable degree of play to considerations of a regional character while being in the main free from the defects which have been noticed, might be found on the following lines: There would be a single Permanent Court, as at present, with a fixed number of nine judges and one central seat. If in any case all the parties to a suit wished the hearing to be on regional lines and to be held in a particular part of the world, say the American Continent, the Court would then be constituted for that particular case as follows: there would be the national Judge of each of the parties; there would also be two " juges suppléants " belonging to American States and chosen from the national Judges appointed by the various Governments. These could either be selected by agreement between the parties or nominated by the Court. Finally, there would be five of the permanent Judges of the Court, including the President or Vice-President. The hearing would be in some part of the American Continent. If one of the parties desired the Court to be constituted in this manner, but the other did not (*e.g.*, in a dispute between an American and a European country), this issue would be left to the Court itself (or perhaps to the President) to decide. The same procedure could, if desired, be applied to obtaining advisory opinions.

112. In favour of this scheme it may be said that it would secure uniformity of jurisprudence and a coherent and self-consistent Court, while going at least some considerable distance towards satisfying regional aspirations. There are obviously a number of possible variations of the scheme, by which satisfaction to the regional principle might equally be given without sacrificing the principle of coherence and consistency. But it clearly would not secure, to the same extent as the first proposal, the objects with which that proposal has been made. It is, in fact, impossible to produce any proposal which would ensure all the objects in question without being open to at any rate some of the objections indicated in paragraphs 109 and 110.

Chapter XII.

SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS.

Chapter I.—Introduction.

113. In general the Statute of the Court has worked well and should be retained as the general structure of the future Court. In the case of provisions as to which no recommendation is made, we consider that no amendment is called for (paragraphs 4 and 5).

114. Whether a new Court be set up or the existing one continued, the present name and seat of the Court should be retained (paragraphs 6 and 7).

CHAPTER II.—NEED FOR A NEW INTERNATIONAL AGREEMENT ABOUT THE COURT.

115. On the assumption that an International Court in some form will be required after the war, it will not be sufficient to rely on the automatic continuance and functioning of the existing Permanent Court of International Justice. A new international agreement will be needed, whether the object be to set up a new Permanent Court or merely to continue the old one in existence (paragraphs 8–11).

CHAPTER III.—CONNEXION BETWEEN THE COURT AND A GENERAL INTERNATIONAL ORGANISATION.

116. The existing connexion between the Court and the League of Nations should be discontinued and should not, for the present at any rate, be replaced by an *organic** connexion with any new International Organisation. This need not exclude all connexion between the Court and the International Organisation. The Court would be part of the machinery at the disposal of the Organisation; and the constitution of the Organisation might lay down the conditions in which its members would be bound to have recourse to the Court, and provide measures for ensuring that the decisions of the Court were complied with. A connexion of this character would not be created by the Statute of the Court, but by the constitution of the Organisation (paragraphs 12–20).

CHAPTER IV.—CONSTITUTION OF THE COURT.

Section 1.—*Qualifications and Nationality of Judges.*

117. The requirements of Article 2 of the existing Statute of the Court should be maintained as they stand, so that the Court would be composed of "a body of independent Judges, elected regardless of their nationality from amongst persons of high moral character who possess the qualifications required in their respective countries for appointment to the highest judicial offices, or are jurisconsults of recognised competence in international law" (paragraph 21).

118. The question of the weight to be given to the various factors of judicial standing, academic or forensic attainments, political, administrative or diplomatic experience in choosing the Judges of the Court is one which cannot satisfactorily be dealt with in the Statute of the Court and must be left to the judgment of those responsible for the nomination and election of candidates. It is, however, desirable that a certain balance should be maintained between those Judges possessed of previous general judicial experience and those having a specialised knowledge of international law. There has been a tendency for the former to be under-represented, and some increase in the proportion of Judges who have had judicial experience in their own countries is desirable (paragraph 22).

119. It is essentially inconsistent with the principle of electing the best candidates, irrespective of nationality, that there should be any system directed to securing the permanent representation of certain countries or

* By organic connexion is meant that the Court was established by one of the articles of the League Covenant, that its judges were elected by the Assembly and Council of the League and that its expenses were a charge on the budget of the League, &c.

groups of countries amongst the Judges of the Court. Any such system also tends to produce a large unwieldy Court instead of the reduced Court which we recommend. There is no need to continue any such system (paragraphs 25 and 26).

120. Any specific attempt, such as that made in Article 9 of the Statute, to secure the representation of particular legal systems, as such, should be abandoned. On the other hand, there is great value in the representation among the Judges of the Court of different types of mind and methods of legal thought, and this would indirectly have the consequence that certain countries would habitually be represented. If the principle of selecting the best available candidates is acted on, it will almost inevitably result that different schools of thought would in practice find representation, and no special steps to secure this end would be necessary (paragraphs 23 and 24).

121. Everything points to the paramount importance of selecting the best available candidates irrespective of other considerations. Failing this, a demand is certain to grow up for a larger Court and for the representation of particular countries or groups of countries as such (paragraph 27).

122. The existing provisions of the Statute directed to securing and safeguarding the independence of the Judges are satisfactory and require no change (paragraph 28).

Section 2.—Number of Judges.

123. The present number of fifteen judges is too high to be conducive to the satisfactory working of the Court and should be reduced to nine, exclusive of *ad hoc* Judges. The quorum should be seven (paragraphs 29–32).

Section 3.—Period of Appointment.

124. The present system of electing the Judges for a period of nine years is satisfactory and should be continued (paragraphs 33 and 34).

125. On the other hand, it is undesirable to continue the existing system whereby the entire Court goes out of office every nine years. This should be replaced by a system under which one-third of the Judges would go out of office every three years, when an election would be held to fill these vacancies. In order to get this system working, special arrangements would be necessary during the first years after its adoption. Any Judge elected to fill an interim vacancy caused by the death or retirement of a Judge would serve only for the remainder of his predecessor's term of office. All Judges should, as at present, be eligible for re-election (paragraph 35).

126. There should be no age limit at which Judges should be called on to retire. If, however, an age limit were adopted it should not be fixed too low. Seventy-two would be a minimum, and 75 probably preferable (paragraphs 36 and 37).

Section 4.—National and Supplementary Judges.

127. The existing rule, which permits Judges of the nationality of any of the parties to a case to sit in the case, and also provides that any party may, if there is no Judge of its nationality on the Court, appoint some person (known as a "national" or *ad hoc* Judge) to sit in the case, should be maintained (paragraphs 38 and 39).

128. In order to spread interest in the Court, and to give a more permanent and assured position to the national Judges, each country party

to the Statute should nominate one candidate, who, as such, would, *ipso facto*, become a member (though not a Judge) of the Court and the national judge of his country. These national judges would also be available to sit when required as supplementary Judges of the Court to make up the number of nine, and for other purposes (paragraphs 40–44).

CHAPTER V.—METHOD OF NOMINATION AND ELECTION.

Section 1.—Nomination.

129. The existing system of nomination of candidates by the national groups in the Permanent Court of Arbitration should be replaced by a system of direct nomination by Governments (paragraph 45).

130. Each of the Governments concerned should nominate one candidate only, who should be one of its nationals (paragraph 46).

131. The provisions of Article 6 of the Statute recommending Governments to consult the appropriate judicial, legal and academic authorities in their respective countries before making nominations should be retained as a recommendation (paragraph 47).

Section 2.—Election.

132. The method of double election of Judges by the Assembly and Council of the League should be discontinued and replaced by direct election by the Governments from among the corpus of candidates nominated (paragraphs 48 and 49).

133. Unless it proved possible to combine the elections with meetings of the Assembly of the future General International Organisation, special meetings of Governments would have to be held every three years. The inconvenience of so frequent meetings might be reduced by conducting the first ballot in writing, each Government sending its vote to an agreed headquarters Government. In that case subsequent ballots might be conducted by the diplomatic representatives of the Governments concerned at some convenient capital (*e.g.*, the seat of the Court), assisted if desired by an *ad hoc* representative of any Government wishing to send one (paragraphs 50 and 51).

134. In the event of the subsequent establishment of an organic connexion between the Court and the future Political Organisation, the task of election could then be transferred to the appropriate organisation of the latter body (paragraph 52).

135. Judges should, as at present, be elected by an absolute majority of the votes cast (paragraph 53).

CHAPTER VI.—JURISDICTION OF THE COURT.

136. It should be open to all States, whether or not members of the future General International Organisation, to become parties to the Statute of the Court; but no country should be permitted to have recourse to the Court which is not a party to its Statute (paragraph 54).

137. Since it is of prime importance that the jurisdiction of the Court should be confined to matters that are really "justiciable," and that all possibility should be excluded of the Court being used to deal with cases which are essentially political in their nature and require to be dealt with by political means, a more precise definition of the jurisdiction of the Court is required than that contained in the existing Statute (paragraphs 55–57).

138. The Statute should contain no provision making the jurisdiction of the Court compulsory for the adhering States. On the other hand, there would, as at present, be nothing to prevent countries voluntarily accepting compulsory jurisdiction by other means, either generally or in defined cases, *e.g.*, under particular bilateral or multilateral conventions in regard to disputes arising thereunder, or by means of a general agreement between two or more States to have recourse to the Court in justiciable disputes arising between them, or by acceptance of the existing "Optional Clause," which should be retained. There would equally be nothing to prevent compulsory recourse to the Court being made a condition of membership of any future General International Organisation, to such extent and on such terms as its members thought proper and decided to lay down in the Constitution of the Organisation. In such event the Constitution of the Organisation could also set out the means whereby the decisions of the Court in these cases should be enforced (paragraphs 58–60).

139. In imposing any general obligation on States to have compulsory recourse to the Court as contemplated in paragraph 138 above, it will almost certainly be necessary to allow countries to make certain reservations, as in the case of acceptance of the "Optional Clause" (paragraph 61).

140. The law to be applied by the Court is set out in Article 38 of the Statute, and, although the wording of this provision is open to certain criticisms, it has worked well in practice and its retention is recommended (paragraph 62).

141. Article 59 of the Statute, which provides that "The decision of the Court has no binding force except between the parties and in respect of that particular case," should be maintained (paragraph 63).

Chapter VII.—Advisory Opinions.

142. The Court's jurisdiction to give Advisory Opinions should be maintained (paragraphs 64–68).

143. The right to ask for such an opinion should not be confined to the executive organs of any future General International Organisation, but should be extended to all international associations of an inter-State or inter-governmental character possessing the necessary status, and to any two or more States acting in concert (paragraphs 69–71).

144. References should be confined to matters of law which fall within the jurisdiction of the Court. They should be made on the basis of a definite question and of a fully stated and agreed set of facts (paragraphs 69 and 72).

145. The Court should be given the necessary competence to reject any application not in conformity with paragraphs 143 or 144, or which, in its opinion, involved any other abuse of the jurisdiction relating to Advisory Opinions (paragraphs 72–74).

Chapter VIII.—Procedure.

Section 1.—General.

146. The procedure of the Court should, in general, be left to be settled by the Court itself by Rules of Court. From this point of view, some of the provisions about procedure in the Statute could be eliminated and

dealt with by Rules of Court. Subject to this, the procedure of the Court has worked well in practice and calls for little change (paragraphs 76 and 77).

147. It is desirable to regulate oral proceedings before the Court in such a way as to avoid a general repetition of matters already adequately covered by the written pleadings, but the matter is one for the discretion of the Court rather than for written rules (paragraph 77).

Section 2.—Language.

148. The question of the languages of the Court is one of principle and should be dealt with in the Statute, except that the question of translations or interpretations from one language to another in the course of the written pleadings or oral hearing should be left to be settled by the Court. The existing rule that French and English are the official languages of the Court should be retained (paragraph 78).

Section 3.—Method of Producing Judgments.

149. Subject to paragraph 150 below, the present method for producing Judgments is satisfactory and should be maintained. The majority rule for decisions should be maintained, despite the fact that it may result in decisions being given by a majority of only one (paragraphs 79 and 80).

150. The right to give dissenting judgments is of great value and should be retained. Further, all Judges, whether of the majority or the minority, should state their views in separate Judgments, though it would remain open to any two or more of them to combine in a common judgment. The actual decision of the Court would then be confined to the "dispositif" or formal order or ruling relative to the matter before the Court. The reasons for or against that decision would, however, be set out in a number of separate judgments (paragraphs 81–84).

CHAPTER IX.—APPEALS.

151. The existing provision of the Statute that the decisions of the Court are final and not subject to appeal should be maintained (paragraph 85).

152. It is not desirable that the Court should act as a court of appeal from local or regional tribunals administering international law (paragraph 86).

153. It may be found desirable to confer on the Court some sort of appellate jurisdiction from tribunals which may be set up under the Peace Treaties to deal with certain questions arising thereunder, analogous to the Mixed Arbitral Tribunals set up after the last war, with the object of securing uniformity of jurisprudence in the interpretation and application of the relevant provisions of the Peace Treaties. No direct right of appeal to the Court from the actual decisions, as such, of these tribunals should be established. On the other hand, it would be possible to set up a procedure whereby the opinion of the Court on matters of treaty interpretation or international law could be obtained for the guidance of the tribunals concerned. This might be done by some system of "evocation," which would probably suffice in practice to secure general uniformity of jurisprudence. This would be a matter to be decided by the instruments setting up the tribunals and not by the Statute of the Court (paragraphs 87–90).

CHAPTER X.—FINANCE.

154. The finances of the Court, hitherto part of the budget of the League of Nations, should be placed on an independent and self-contained basis, whether or not there is in other respects any organic connexion between the Court and a future General International Organisation. Provision for financing the Court, and for fixing the salaries and pensions of the Judges, Registrar, &c., should be made by the Statute or by collateral agreements between the Governments parties thereto. The existing scale of salaries and allowances, &c., should be provisionally continued. Provision should be made for ensuring that these are not affected by fluctuations in the value of the currency in which they are paid (paragraphs 91–95).

155. As part of the general question of regulating the existing financial obligations of the League, it will be necessary to have regard to the accrued pension rights of past and present Judges and officials of the Court (paragraph 96).

WILLIAM MALKIN (*Chairman*).
G. KAECKENBEECK.
F. HAVLICEK.
R. CASSIN.
ANDRE GROS.
C. A. STAVROPOULOS.
G. SCHOMMER.
E. STAR-BUSMANN.
R. M. CAMPBELL.
ERIK COLBAN.
B. WINIARSKI.

G. G. FITZMAURICE (*Secretary*).

10*th February*, 1944.

[27458 5/44] Wt. 502/349 4/45 F.O.P. 25608 Gp. 340 T.S. 20085

Report of the Committee on the Training of Civil Servants

Presented by the Chancellor of the Exchequer to Parliament
by Command of His Majesty
May 1944

CX·p·26.

LONDON
HIS MAJESTY'S STATIONERY OFFICE
SIXPENCE NET

Cmd. 6525

The cost of printing and publishing this Report is estimated by His Majesty's Stationery Office at £79 0s. 0d.

CONTENTS

INTRODUCTION

	PAGE
Origin of Committee	5
Scope of Inquiry	5
Method of Inquiry	6
Summary of Recommendations	6

PART I: GENERAL PRINCIPLES

Criticisms of the Civil Service	9
Objects of Training	10
The Main Elements of Successful Training	11
General Proposals for Vocational Training	12
Background Training	15
Further Education	15
Centralised Training	16

PART II: APPLICATION TO THE VARIOUS GRADES

Clerical Class	18
Clerical Assistants	21
Typing Grades	22
Executive Classes	22
Professional and Technical Classes	25
Administrative Class	26
Training for Higher Administration	31

CONCLUSION 32

APPENDICES

I. List of Memoranda Received	34
II. List of Witnesses	34

REPORT OF THE COMMITTEE ON THE TRAINING OF CIVIL SERVANTS

LIST OF MEMBERS

RT. HON. RALPH ASSHETON, M.P. *(Chairman)*
Financial Secretary to the Treasury

MISS MYRA CURTIS, C.B.E.
Principal, Newnham College, Cambridge

MR. A. J. T. DAY, O.B.E.
Chairman, Staff Side, Civil Service National Whitley Council

SIR THOMAS GARDINER, G.B.E., K.C.B.
Director-General, General Post Office

SIR HAROLD HARTLEY, K.C.V.O., M.C., F.R.S.
Vice-President, London Midland and Scottish Railway Company

MR. A. L. N. D. HOUGHTON
Staff Side, Civil Service National Whitley Council

SIR KENNETH LEE, BT.
Chairman, Tootal Broadhurst Lee Company, Limited

MR. H. WILSON SMITH
Under-Secretary, H.M. Treasury

SIR ROBERT WOOD, K.B.E., C.B.
Deputy Secretary, Board of Education

Secretary: MR. F. C. NEWTON
H.M. Treasury

REPORT

To the Right Honourable Sir John Anderson, G.C.B., G.C.S.I., G.C.I.E., M.P., Chancellor of the Exchequer

INTRODUCTION

Origin of Committee

1. On the 22nd October, 1942, the Select Committee on National Expenditure presented to the House of Commons its sixteenth report for the Session 1941–42, entitled "Organisation and Control of the Civil Service." That Committee was impressed by the need for post-entry staff training in the Civil Service and favoured the creation of a Civil Service Staff College.

2. In the debate which took place in the House of Commons on the 28th January, 1943, your predecessor welcomed the general tenor of the Select Committee's observations, but pointed out that the establishment of a Staff College was only one aspect of the much wider question of training. He announced his intention of starting an investigation into the training of civil servants forthwith.

3. We were accordingly appointed under the Chairmanship of the Financial Secretary to the Treasury in February 1943, with the following terms of reference :

> To examine the general question of the training of civil servants, including the question whether a Staff College should be established, and if so, the particular form and character which that College should take.

Scope of Inquiry

4. We were given to understand at the outset that our inquiry was intended to be limited to the Home Civil Service. We have not, therefore, concerned ourselves with the Foreign Service, or with the Colonial and Indian Civil Services. Nor have we pursued in detail the training of the professional and technical grades. To have done so would have required a knowledge which we cannot claim to possess, or would have involved investigations that would have unduly delayed our Report. Nor again have we dealt with the manipulative and other grades special to the Post Office which, we are informed, constitute the subject of a comparable departmental inquiry. Our attention has been largely confined to the three main classes of the Civil Service—Clerical, Executive and Administrative. It is here, we think, that the present public interest is largely focused. At the same time we believe that many of the considerations and recommendations put forward will be found to be both relevant and applicable in varying degrees to other grades of the Service. The more we have studied the matter, the more impressed we have become with the vital importance of training for all grades.

5. Our terms of reference restrict us to the question of training. Training cannot, however, be considered in isolation ; it involves consideration of such matters as recruitment, allocation, probation, transfer and promotion. There may be changes in some or all of these after the war, but apart from some allusion to them at certain points in our Report, we have endeavoured not to pass beyond the limits of our terms of reference. Generally, for the purposes of our inquiry, it has been assumed that the present main structure and methods of recruitment of the Civil Service will continue, and that, although Government Departments will remain closely associated with, and perhaps even exercise some degree of control over, industry and commerce, they will

not themselves be called upon, as a general rule, to undertake industrial and commercial activities. Short of this, it seems clear that the Civil Service will continue to be more and more concerned with the affairs of the community, acting as the servant of the State in those numberless ways which involve contact between Government and the individual citizen. It is for the efficient performance of such functions that the civil servant must be trained.

Method of Inquiry

6. At the beginning we set out to collect evidence of practice in regard to staff training both in the Civil Service and outside it. Memoranda were invited from various sources—Government Departments of different types, a number of business firms, and other organisations—and these are listed in Appendix I.

7. At a later stage oral evidence was taken from a number of witnesses, including persons possessing a specialised knowledge of the problems of staff training, either within the Civil Service or in outside fields. A list of these witnesses is given in Appendix II. It will be seen that many of them, being temporarily civil servants, were in a position to view the Service at first-hand in comparison with outside organisations of various kinds. We are indebted to all these witnesses and to many others who have helped in our task.

8. To give even a summary outline of this evidence would overburden our Report. It will be sufficient to state as a general conclusion that, although there are notable exceptions, neither inside nor outside the Service has there been much systematized post-entry staff training in peacetime.

9. The influx into the Civil Service of large numbers of temporary employees and the loss of many permanent officers during the war have, however, had the effect of emphasizing the need for training and of evoking a new interest in it. As a result, a number of Departments have organised short courses for new entrants and these offer useful pointers for the future.

10. The main body of our Report is divided into two parts. Part I deals with general considerations and principles ; Part II indicates some ways in which they can be applied to the several classes that have come under review. For convenience our main recommendations are summarised below. The numbers in brackets refer to paragraphs in the Report.

Summary of Recommendations

GENERAL PRINCIPLES

The Treasury should exercise general control over training, and should appoint a Director of Training and Education. (20)

There should be a planned training scheme within each Department under the general control of the Head of the Department. In large Departments there should be under the Establishment Officer a full-time Departmental Training Officer and in smaller ones a part-time Officer. (19 and 20)

Great care should be taken in the selection of teachers. (21)

The National Whitley Council should be associated with general training policy, and Departments should invite the co-operation of staff representatives in working out departmental schemes. (22)

Attention should be paid to the physical surroundings in which people work. (23)

Vocational Training

Probation should be more real than at present. (24)

There should be a routine of training for all new entrants under a responsible officer. (A document setting out the traditions and aims of the Service, and

a booklet giving the history and functions of the Department and a guide to office procedure, should be given to each entrant. (25)

A short course of instruction should precede actual office duty, varying according to grade. (26) This should be followed by personal tuition under an experienced member of the Department, involving an allowance of non-effective time for both teacher and taught. (27)

In the early years of service staff should be systematically moved from branch to branch, and where possible from headquarters to outstations. Movement from one Department to another should be made easier. (28–31)

Those who are to supervise others should be carefully chosen and given a period of trial. Short courses on the principles of supervision should be organised departmentally. (32)

Establishment Officers should be regarded as key men, and should study staff management and office organisation. They should be in touch with staff practice in business organisations. (33)

Background Training

This should be provided by the Department, using such methods as conferences, the circulation of an office bulletin, etc., to give staff as much information as possible about its work. (34 and 35)

Each large Department should have a house journal and a good library. (36)

Films should be more generally used. (37)

Further Education

Departments should encourage their staff to acquire outside vocational qualifications by provision, in approved cases, of time off and payment of fees. (39)

The Government should arrange as soon as possible after the war for the free, compulsory, part-time education of all civil servants up to the age of 18. (41)

They should encourage non-vocational further education in co-operation with education authorities in every way short of paying fees. (42)

The National Whitley Council should consider whether it should undertake the surveillance of the work done by the Civil Service Council for Further Education. (42)

Centralised Training

No new centralised or institutional training is needed or is practicable for the Clerical grades, and very little for the Executive and Professional grades. (45)

The Civil Service should have its own central organisation for training Administrative cadets. This might also serve a number of purposes connected with background training and be a centre for bringing together administrators from the Service and from outside to discuss common problems. We do not recommend that the Government should associate itself with the establishment of the proposed National Administrative Staff College though if such a College is set up some civil servants might attend experimentally. Arrangements should be made to give men likely to hold positions of high responsibility a break from their usual work for the purposes of study or foreign travel during their early thirties. (46 and 47)

APPLICATION OF THE GENERAL PRINCIPLES TO THE VARIOUS GRADES

Clerical Class

All entrants should be initially posted to a departmenta reception course lasting from 3 to 6 days. (52)

Clerical Officers coming into direct contact with the public should receive practical training on the lines of the Post Office Counter Clerks' Schools. (54)

Clerical Officers on large scale repetitive work should be trained in "nursery" groups by special instructors for 3 to 6 months, "live" work and tuition going on simultaneously. (55)

Individual clerks on miscellaneous work should have a preliminary course in a general registry. On allocation they should be put in the charge of an experienced colleague. (56)

The training organisation for outstations should be on a regional basis. (57)

After initial training transfers within the Department from branch to branch should normally be made at not more than five-yearly intervals. (58)

Higher Clerical and Staff Officers should be trained in the principles of supervision. (60)

Clerical Assistants

The recommendations for the Clerical Class apply generally to Clerical Assistants. Departments should arrange "schools" in machine operating, where necessary. (63)

Typing Grades

After the war the Service should aim at enrolling typists of a higher educational standard. They should be given a short initial course in Civil Service methods and a later refresher course. Until a sufficient supply of entrants of the requisite standard is available, the present practice of training typists within the Service should be continued. (66)

Typists chosen for secretarial posts should be given appropriate preliminary training. (67)

Superintendents of Typists should be given training before promotion. It could probably be best organised centrally. (68)

Executive Class

More attention should be paid to allocation, and re-allocation of misfits should be an essential part of any departmental training scheme. (73)

Reception arrangements similar to those recommended for the Clerical Class are appropriate for new entrants to the Service at this level. (74)

Existing methods of training on "live" work under personal supervision should be continued. (76)

Movement from branch to branch in early years of service should be developed systematically, though some specialisation is essential in Executive work. (78)

The following supplementary training should be adopted in appropriate cases: (80–85)

1. Vocational lecture courses for those engaged on special or new techniques. Clerical Officers promoted to this class should be encouraged to study privately on the lines suggested in paragraphs 39–42.
2. Conferences, as described in paragraph 35.
3. Special training in staff supervision and office organisation.
4. The study of business and industrial methods, for certain officers above the basic grade.

Some of the recommendations made for the Administrative Class are applicable to the highest levels of the Executive Class. (86)

Professional and Technical Classes

These officers should be trained on the lines of the general principles set out in this Report so far as these are applicable to their work and grade (87 and 88)

Administrative Class

After going through the same departmental reception arrangements as Clerical and Executive entrants, the Assistant Principal should be trained concurrently on the following lines: (i) Central Training; (ii) Departmental discussions, talks, visits, etc.; (iii) "Live" work in his Department. (95)

The Director of Training and Education should be responsible for the central training scheme comprising lectures, reading and discussions on Civil Service administration. (97–100)

The training centre should serve as a clearing house of ideas about administrative problems. (101)

After the initial course, training should be continued departmentally, with especial emphasis on mobility and adaptability. The cadet should not normally spend more than two years in any one branch. (104)

As many cadets as possible should serve a period of duty as private secretary either to a Minister or to a senior official. (105)

In Departments with a regional or divisional organisation or similar facilities cadets should have a period of service in the "field." (106 and 107)

Training for Higher Administration

There should be a break in the early thirties, apart from that given by transfers within the Service, for those likely to hold positions of high responsibility. (109)

We do not recommend secondment to business, but see scope for visits to commerce and industry in Departments where officers particularly need a closer understanding of business. (110 and 111)

Departments such as the Ministry of Health and Board of Education should consider and report on the possibility of secondment to local authorities. (112)

Selected civil servants should be granted sabbatical leave for approved study or research in this country or abroad. Opportunities should be given for studying the public administration of other countries, and transfers to branches of the Home Service outside the United Kingdom including the Dominions, to the Foreign and Colonial Services and, if appropriate, to the Indian Civil Service should be arranged. (114 and 115)

Some of the proposals made for the Administrative Class should be applied to selected members of other classes, especially the Executive, Professional and Technical. (117)

PART I

GENERAL PRINCIPLES

Criticisms of the Civil Service

11. In peace-time the Civil Service is a target of frequent criticism: in war-time criticism is very greatly increased. There is apprehension lest the Government machine may not adapt itself to the urgencies of war; while the inevitable encroachments of Government control on personal liberty and private life are a source of new and daily irritations. The urge to "shoot the man at the piano" often arises not so much from the demerits of his performance as from dislike of the tune.

12. It is not for the Committee to enter into a defence of the Service against such public criticism. It may not, however, be improper to record that

those witnesses who combined experience of the outside world with actual experience of the working of the Civil Service paid a high tribute to the Service and to the part which it has played in the war effort. Some of them, indeed, did not hesitate to say that a continued stream of criticism, much of which they felt to be unjustified or to make insufficient allowance for the conditions in which the Civil Service has necessarily to work, was prejudicial to its morale.

13. While the defects commonly attributed to it are not the monopoly of the Civil Service, it may be that the conditions of the public service tend to foster particular weaknesses and to throw the limelight of publicity upon them to a greater degree than elsewhere. The faults most frequently enumerated are over-devotion to precedent; remoteness from the rest of the community, inaccessibility, and faulty handling of the general public; lack of initiative and imagination; ineffective organisation and misuse of manpower; procrastination and unwillingness to take responsibility or to give decisions. We recognise that these defects exist in some measure—though not so generally or in such degree as is often alleged—and whether they derive from the individual or the system, post-entry training must be directed to eliminating them.

14. But whatever shortcomings there may have been in the past, our aim has been to consider in what ways, at their different levels, the servants of the State can be assisted to attain and maintain the wider outlook, greater adaptability and the technical knowledge which the State service will call for in the years that lie ahead.

Objects of Training

15. Having sketched the background to our approach, we turn now to examine some of the general considerations affecting training that have emerged in the course of our discussions. At the outset we asked ourselves the question: "What is the object of training?" If the answer is that it is to attain the greatest possible degree of efficiency, then the word efficiency seems to need some closer definition. In any large-scale organisation, efficiency depends on two elements: the technical efficiency of the individual to do the particular work allotted to him, and the less tangible efficiency of the organisation as a corporate body derived from the collective spirit and outlook of the individuals of which the body is composed. Training must have regard to both elements.

16. Five main aims present themselves.

First, training should endeavour to produce a civil servant whose precision and clarity in the transaction of business can be taken for granted.

In the second place, the civil servant must be attuned to the tasks which he will be called upon to perform in a changing world. The Civil Service must continuously and boldly adjust its outlook and its methods to the new needs of new times.

Thirdly, there is a need to develop resistance to the danger of the civil servant becoming mechanised by the machine; whilst we must aim at the highest possible standard of efficiency, our purpose is not to produce a robot-like, mechanically-perfect Civil Service. The recruit from the first should be made aware of the relation of his work to the service rendered by his Department to the community. The capacity to see what he is doing in a wider setting will make the work not only more valuable to his Department but more stimulating to himself. In addition, therefore, to purely vocational training directed to the proper performance

of his day-to-day work, he should receive instruction on a broader basis as well as encouragement to persevere with his own educational development.

Fourthly, even as regards vocational training, it is not sufficient to train solely for the job which lies immediately at hand. Training must be directed not only to enabling an individual to perform his current work more efficiently, but also to fitting him for other duties, and, where appropriate, developing his capacity for higher work and greater responsibilities.

Fifthly, even these ends are not in themselves enough. Large numbers of people have inevitably to spend most of their working lives upon tasks of a routine character, and with this human problem ever in the background, training plans, to be successful, must pay substantial regard to staff morale.

17. Among the common criticisms of the Civil Service there is one of such importance as to call for particular mention in any statement of the objects of Civil Service training. This criticism relates to the attitude of the civil servant and of the Government Department to the public. It is sometimes suggested that civil servants tend to form a class apart from the rest of the community and are apt to forget that John Citizen is a composite of innumerable individual John Smiths. Nothing could be more disastrous than that the Civil Service and the public should think of themselves as in two separate camps. The inculcation of the right attitude towards the public and towards business should therefore be one of the principal aims of Civil Service training. The civil servant must never forget that he is the servant, not the master, of the community, and that official competence need not, and should not, involve the loss of the human touch. Many civil servants who are brought most frequently into contact with the public know and appreciate the value of the right attitude; others must be raised to the same standard, since the Service is liable to be judged on the basis of innumerable daily contacts between members of the public and the government machine.

18. But it is not only in direct personal contacts that a sense of service must be fostered. In the conduct of correspondence and in the drafting of circulars and forms it is equally important to keep in mind a proper consideration for " the man at the other end." One of the most frequent criticisms of the Service is the time taken to get a decision. There are occasions when speed is vital and training should emphasise the need for a proper sense of urgency.

The Main Elements of Successful Training

19. What are the main requirements of a sound training scheme? First and foremost, we attach importance to the mere existence of systematised training within a Department.

20. Secondly, it is clear that the most skilfully devised paper plans will fail unless the right persons are chosen to administer them. One lesson brought home to us by the evidence is that no scheme of training will be successful unless there is someone, or some branch, responsible for running it. We therefore recommend that in each large Department there should be appointed a Departmental Training Officer (with such assistants as are needed) to be responsible for the operation of the departmental scheme and for its constant overhaul and improvement. Such an officer should be on the staff of the Principal Establishment Officer and wherever possible personally responsible to him. In the smaller Departments the work could no doubt be done on a part-time basis, but here too care must be taken to select someone really suitable for it. We recognise to the full the pressure at all times

on Heads of Departments, but they cannot, we think, divest themselves of a general responsibility for staffing problems and the management of their offices. In particular we feel that this matter of training is so important that they should give it their interest and attention. So long as the Treasury remains the central Department on Civil Service questions, it should exercise general control and guidance over the fulfilment of such of our recommendations as may be accepted and over the developments that follow. Here too there ought to be a carefully chosen officer responsible for seeing that policy is put into effect. He might be known as the Director of Training and Education.

21. Thirdly, the key to the most successful training schemes which we have studied is the care and thought devoted to the selection of the persons entrusted with training. They should be young in spirit if not in years and thus as near as possible to their pupils in outlook, and they ought to be chosen primarily for their keenness.

22. The fourth ingredient of success is staff co-operation. Training is a particularly suitable and fruitful field for Whitley Councils to work in, and where in the past they have done so the collaboration between the two sides has contributed very greatly to the results achieved. We hope that Departments will invite the co-operation of their Staff Sides in applying such of our recommendations as are accepted and in surveying their results from time to time. We hope too that some way will be found of associating the National Whitley Council with the more general oversight of training policy for the Service as a whole.

23. Finally the effects of training, however well organised, may easily be neutralised unless due attention is paid to the physical surroundings in which people work. Up-to-date office equipment and accommodation have a potent psychological effect upon the efficiency of staff. This is primarily a matter for the appropriate branch of the Treasury. The Government should see that its servants are well housed and adequately equipped.

General Proposals for Vocational Training

24. Before we consider the general principles applicable to the new entrant to the various grades of the Service, some reference should be made to probation. The probation served by every new recruit ought, in our view, to be more of a reality than at present. If a probationer shows during his training that he is unsuited to the work assigned to him, an effort should be made to re-allocate him to duties for which his abilities and temperament fit him better. Even with such arrangements, there may still be some misfits who during their probation and early training show no aptitude for Civil Service work, and in those cases we think that, in their own as much as in the national interest, they should leave the Service.

The New Entrant: Initial Training

25. A Government Department—even a small office—is to the new arrival somewhat forbidding. First impressions may be of great significance, and it is most desirable that trouble should be taken to receive the newcomer in such a way that he feels he is joining a Service to which he will have a personal contribution to make. Detailed arrangements will vary according to the age and educational background of the recruit, but there are certain principles which appear to be of general application. First, there should be someone whose individual responsibility it is to receive all new arrivals in accordance with a properly planned routine not liable to be varied or curtailed on account of the other preoccupations of the Establishment authorities. Secondly, we are attracted by the idea that every new entrant should be

given a document—perhaps in the form of a letter signed by the Minister or the Head of the Department—laying stress upon the traditions of the Service which he has joined and the high standard of conduct demanded of each of its members. This should impress upon his mind from the start that his is a Service with a prestige to uphold, and, what is more important, a Service the functions of which are to serve the Crown and the community. Thirdly, a short and readable booklet should be provided containing a brief sketch of the history and functions of the Department, some general hints upon office procedure, an explanation of any technical terms that may be in common use, and particulars of the main rules likely to affect the official life of the civil servant. Such a preliminary guide would be of great assistance, and all the more so if presented in an imaginative form.

26. Next comes the introduction to the daily work of the Department. Some short period should elapse before the trainee takes up an actual office duty. Experience during the war suggests that this should be spent at a course designed to give the recruit a general idea of the working of a Government Office, an insight into the duties and organisation of his particular Department and a general background for Government work from the standpoint of secrecy, office discipline, and so on. The content and duration of the course would vary from one grade to another and are discussed more fully in Part II.

27. On completion of the course, the pupil is ready for the next stage in his training. This should consist in part, and for some ranks almost entirely, of personal tuition by an experienced and suitable person on carefully selected work. There must, however, be a clear recognition that neither teacher nor taught can be available whole-time for effective work. Training must be regarded as part of the work of the Department and full allowance made for it in all staffing budgets. This is not wasteful; on the contrary it is the essence of sound management.

Training for Mobility

28. So far we have examined the training of the recruit for his initial job. But our scheme must also provide training for the next job or for a different job. It is necessary, therefore, to look more closely at training designed to make it easier to transfer people from one type of work to another (i.e. for other work not necessarily involving promotion), as well as at training for higher posts.

29. We attach much importance to mobility, both within a Department and within the Service as a whole. It is good for the individual and, in the long run, it is good for the organisation. It is especially important where the work is of a routine or monotonous character. The difficulty is the inconvenience, however transitory, caused by the removal of an experienced officer and his replacement by a newcomer. But the development of personal capacity must not be sacrificed to the short-term needs of the organisation: this inconvenience must be faced, and, more especially in their earlier years, staff should be changed from branch to branch on a systematic basis. The frequency of the changes will vary from grade to grade and from Department to Department.

30. One feature of mobility of staff within a Department that needs stressing is the desirability of more movement from headquarters to outstations. In Departments with a regional or semi-regional organisation this should be a practicable arrangement and, from the training standpoint, nothing but good can result. Experience in the field brings administration to life. Emphasis has already been laid on the need to train the civil servant in a proper appreciation of the point of view of the public, and in no way can that be done more successfully than in an office, away from

the centre, where there is constant contact with individual members of the public, industry and local authorities. We therefore urge most strongly that Departments with appropriate facilities should do everything in their power to encourage interchange of suitable staff between headquarters and outstations during the early years of service.

31. The third type of mobility is from one Department to another. It is impracticable to devise a general scheme of moves on this basis, but where they can take place they are undoubtedly beneficial in increasing an officer's adaptability. In normal times such movement is unusual ; we believe, however, that the Service as a whole would derive advantage if departmental barriers could be less rigid so as to permit more fluidity of staff. We refer to this again in paragraphs 58–59 and 115.

Training for Supervision

32. The first step upwards in any career often involves the control of others and we attach importance to the provision of training which has regard to this fact. Brilliance on individual work is no guarantee of ability to supervise other people. It is therefore very necessary that every officer who occupies, or is to occupy, a position in which he has staff working under him should be assisted to understand the nature of supervisory duties. The first essential is, of course, that those called upon to fill such posts should be fitted for them by temperament and inclination. It is desirable from the training point of view that, wherever possible, an officer should be tried in a supervisory post before being promoted to it. Apart from this, however, special steps ought to be taken to give the prospective or newly appointed supervisor some guidance on the handling of subordinates. The basic principles of staff supervision are already being taught by some Departments and firms, and we think such instruction ought to be generally adopted. To this end, we recommend that Departments should organise short courses, consisting of small classes with lectures by specialists and discussion groups. This idea is developed in more detail in Part II.

33. Apart from the supervision of groups, there is the whole problem of what the Civil Service calls " Establishment " work : personnel management and departmental organisation. Establishment Officers' posts are clearly key posts. It is essential to the success of any training scheme that they should be treated as such, and that Establishment Officers, and those under them, should be given a proper opportunity to acquire the knowledge essential to their functions. The subject of Organisation and Methods has recently received a good deal of attention and the experimental training of selected officers, including members of the Administrative Class, is now being conducted by the Treasury, with the immediate purpose of producing men and women capable of directing or participating in Organisation and Methods work on returning to their own Departments. We welcome this development and trust that it will play an increasing part in the training of Administrative and other officers, wherever appropriate. But much still remains to be done. The study of personnel questions has hitherto been inadequate, and the Service, which should be in the forefront of up-to-date practice, has much to learn about modern staff management. It ought, for example, to be possible for an officer allocated to an Establishment Division to study in more readily available form than at present the accumulated knowledge of the rather specialised technique required. We therefore favour any arrangements that will help to this end, including the holding of meetings and conferences of those engaged on Establishment work and the extension of such experiments as the organisation of study groups by the Treasury to examine problems causing difficulty in particular fields. We also recommend the promotion of regular contacts with

those concerned with staff management in progressive large-scale business organisations. Training in Establishment work is a desirable preparation for higher positions involving control of staff.

Background Training

34. Training must aim at broadening the mind. This can be achieved by general background training within the Department or by further education, whether of a strictly vocational or of a cultural and academic kind. It should be the constant aim of Departments to provide background training, and in this direction much can be learned from progressive business and from the best practice in the Civil Service itself.

35. Many varied methods have been described by some of our witnesses concerned with training in business, all designed to give the staff a better understanding of the activities of the concern to which they belong. Weekly discussion groups, talks by managers, and periodical statements of policy by the management are examples of what is being done; it seems clear that, where a staff is taken into the confidence of the management, both interest and efficiency are increased. Where this has been the practice in Government Departments, it has certainly justified itself. The Committee is therefore of opinion that it should be the standing practice to furnish staff with as much information as possible about the work of their office, its purpose and its progress. This may be done in several ways—by conferences, by the circulation of a bulletin, and by oral discussion of difficulties arising from the operation of any particular policy.

36. There are other methods, such as the production of a house journal, which we regard as desirable instruments of training in the widest sense of the word. A monthly magazine, like that which until the outbreak of war told the Post Office about the Post Office, can be a powerful aid. We should like to see a house journal produced in those Departments where the nature of the work and the size of the organisation make this possible. We should also like every Department to have a well-stocked and attractive library related to its sphere of interests. Developments of this kind should not be hampered on grounds of expense; money spent on training will show a good return.

37. Experience both inside and outside the Service suggests that the film could with advantage be more generally used in the Civil Service for training purposes. There is plenty of scope for dramatic effect and perhaps no more vivid manner of bringing a subject home to a pupil.

38. Visits to other branches and sub-Departments may be of value to staff at all levels. Visits to other Departments or to outside concerns may be helpful as a means of broadening the horizon of the higher ranks or specialist staffs who are brought into particularly close contact with some activity outside their own Department.

Further Education

39. Departments should encourage their staff to acquire external qualifications having vocational value, as for example, in accountancy by those engaged on accounting work, and in statistics by those whose job it is to handle them. We recommend not only the provision of facilities by means of reasonable time off and other opportunities for study, but also the payment of fees in approved cases by the Department.

40. Non-vocational further education stands on a rather different footing. From the evidence received from the business world, it is clear that in general

the new recruit is encouraged to educate himself largely by his own efforts with varying degrees of assistance. The system of recruitment to the Civil Service, tapping as it does every level of the educational system of the country, reduces the need for such an arrangement. There are none the less already in existence a number of examples of non-vocational educational facilities within the public service. The Civil Service Council for Further Education has provided us with information about its widespread activities and we have studied the arrangements in the Post Office, where, in London, boys and girls are required to continue their education at classes arranged and paid for by the Post Office, and where for all ranks and ages there is a strong movement (arising out of early efforts by their Accountant General's Department) for general and vocational further education. This movement, which is encouraged by the Department in co-operation with the education authorities in every way short of paying fees, has met with substantial success.

41. The future development of these activities depends primarily upon general educational policy. The intention of the Government is to make part-time continued education during working hours compulsory up to the age of 18. The fulfilment of this policy for the country as a whole may take time, but we recommend that the Government in its capacity as employer should give a lead by arranging as soon as possible after the end of the war for free, compulsory, part-time education for all civil servants of any rank up to the age of 18.

42. Above this age, the initiative in non-vocational further education should, we think, lie mainly with the individual, who should pay his own fees, though the Government might give encouragement by co-operation in the necessary arrangements and providing accommodation where required. It is not suggested that Departments should assume full responsibility for developments of this kind, but while the admirable work which has been done over the last twenty years by the Civil Service Council for Further Education is fully appreciated, we cannot regard it as satisfactory that responsibility in this sphere should be left entirely to voluntary initiative. The obvious course is to place the responsibility where it originally lay, namely on the National Whitley Council. We therefore recommend that the Council should consider whether, and if so, how, it should officially support and undertake the surveillance of the work carried on by the Council for Further Education.

Centralised Training

43. Having in the foregoing paragraphs set out the needs of civil servants, as we see them, for various kinds of training, we are required by our terms of reference to ask what place, if any, there is in this picture for central training of the institutional kind—i.e., for training at a School or College; and, if there is to be such training, how far the Civil Service should join forces for the purpose with workers in other fields.

44. Our terms of reference call upon us to consider whether a "Staff College" shall be established; at the same time, they recognise that there are various forms which such a College might take. The term has in fact acquired as yet no precise significance. It is vaguely associated in the public mind with the College where regimental officers learn what they need to know as staff officers, and on this analogy a Staff College, in so far as it has any application to the Civil Service, would be intended only for those likely to reach high office. This indeed is the form in which witnesses have brought the proposal to our attention. It has two variants:

(*a*) A College established by the Government to which selected members of all the Crown services would go.

(*b*) A "National Administrative Staff College" to be established with the support of a number of outside interests, industrial, commercial and other, whose intention is to bring together at a residential course of some five months young men and women, aged from about 28 to 34 and drawn from all walks of life, who have shown by their record in their own particular sphere that they are destined for positions of high responsibility.

It would, however, clearly be open to us to suggest any other form of institution which could be described as a Staff College on the ground that it existed for the training of staff.

45. The idea of a central institution where the training of all civil servants would be carried on has only to be mentioned to be seen as impracticable. The entrants each year into the Service are so numerous (running into many thousands), so scattered all over the country and engaged on such diverse work, that no single institution would be capable of grappling with them all. Moreover the training requirements of the civil servant as we have set them out—initiation into Government office ways, instruction on the job, background training and further education—are in the main given most readily and effectively by the Department in which the civil servant is employed, either individually or in a departmental school, or in the case of further education by existing academic institutions and other means. For the Clerical grades we can see no exception, and for the Executive and Professional grades very little, to the conclusion that no new centralised or institutional training is called for. (Such exception as we do see in the case of the Executive Class is indicated below, paragraph 71.)

46. The case of the Administrative Officer is rather different. There is a good deal of general information about the background and methods of Civil Service administration which recruits to this grade in all Departments equally have to acquire, and we see a real need for a central organisation to give the appropriate teaching. Further, such an organisation ought to be able to serve a useful purpose in bringing together administrators at a later stage for discussion and investigation of common problems. In reaching this conclusion we have not, however, found that our ideas coincide with those of the advocates of either of the forms of Staff College referred to above. In the first place the training we have in mind would be in the main for new entrants, and not, primarily, for persons selected as suitable for promotion after some years of experience. In the second place, while heartily in favour of encouraging contact between civil servants and workers in other departments of life, especially in commerce and industry, we do not think these contacts can best be secured through a course of common instruction in administration. It is extremely difficult to find a firm foundation on which could be based a method of teaching administration common to both business and the Civil Service, and though we consider, as will appear in Part II, that the newcomer can be taught a good deal about administration for Civil Service purposes, we think that both the lessons and the illustrative matter are too specialised to be made useful in a College of the kind proposed to us. From the evidence we think there is a danger that such an institution would end by becoming a commercial college concerned with office methods, and that a real opportunity of assisting the Civil Service administrator to a rapid comprehension of the nature of his problems and the lines of thought and action he should follow would be lost if such training were merged in a generalised administrative course for both business and the Services.

47. Our conclusion on this head is therefore that we cannot recommend that the Government should associate itself with the establishment of a Staff College as hitherto advocated, and that the scheme of central training

proposed later in our Report should be handled by the Civil Service itself and should cater primarily for the new entrant to the Administrative Class, though we hope that it might develop so as to serve a number of other purposes connected with the background training of the Service. At the same time, the Civil Service ought not to stand aloof from new developments in the personnel field, and if a National Administrative Staff College is set up, some civil servants might well attend a course there as an experiment to be reviewed in the light of results. Our own ideas for the man in the early thirties who is holding a position of responsibility are somewhat different from those of the advocates of an Administrative Staff College. We believe wholeheartedly in the value of a break from the usual work at some time in a man's career; but this aim is capable of attainment by other means. We recommend instead the granting of sabbatical leave in various forms for the purposes of study or foreign travel to those destined to fill posts of high responsibility. This proposal is elaborated in paragraphs 114 and 115.

PART II

APPLICATION OF GENERAL PRINCIPLES TO THE VARIOUS GRADES

48. The precise application of the proposals already outlined will naturally vary from class to class. It seems necessary, therefore, to undertake some elaboration of them with particular reference to the three basic grades of Clerical, Executive and Administrative Officers. Reference must also be made—though in less detail—to the Professional and Technical grades, and to the Typing grades. While the paragraphs which follow will give some indication of the Committee's views, it should be made clear that Departments themselves must be responsible for applying the general principles recommended and for adjusting them to departmental conditions. Particularly is this so at the Clerical and Executive levels where there is considerable variation in circumstances between one Department and another.

Clerical Class

49. In 1939, there were approximately 65,000 established and about 17,000 unestablished civil servants in the General Clerical Grade and in its Departmental variants. Recruitment for established posts was by open competition at the age of 16 to 17 (with an extension of age for established civil servants and a limited number of posts reserved for successful candidates in competitions restricted to members of Minor and Manipulative grades) and by promotion within the Service. To these grades are entrusted all the simpler clerical duties not assigned to Clerical Assistants (paragraph 62). Their work includes such duties as dealing with particular cases and checking straightforward accounts and returns under well-defined instructions, preparing statistical material in prescribed forms, doing simple drafting and précis, and supervising the work of Clerical Assistants.

50. We see no reason to distinguish, so far as training is concerned, between those reaching the class by open competition, limited competition, or promotion.

Training on the job

Reception Arrangements

51. A number of Departments organise "schools" consisting of preliminary talks to groups of new recruits on office methods and structure. Thus the Ministry of Labour and National Service has since the war set up Training

Schools in all its Regional Office towns to accommodate classes of 15 to 20 newly recruited clerks who attend a three-day course conducted by a supervising Employment Officer. The Ministry of Food holds a course lasting a week for newly entered officers in the Clerical Grades, the aim being to give a general idea of the working of a big Government Office, an outline of the duties and organisation of the Ministry of Food, and a general background to Government work. The War Office and Air Ministry have similar schools. In the Ministry of Pensions, newly appointed clerks are received in the registry by a Senior Staff Officer and informed of the functions of the Ministry, its organisation and the method of working, before allocation to a course of training.

52. The Committee takes the view that a new clerk ought not to be put straight to his desk; it is important from the psychological point of view, as already suggested, that something should be organised for his arrival. It would be generally desirable for all entrants to the Clerical Grades to be initially posted to a reception course lasting from three to six days and Departments should work out a programme covering talks and discussions on such subjects as the structure of the Department, the functions of the registry and the machinery of filing, and including instruction in the use of the telephone and in simple minute writing, coupled with suitable tests.

Personal Tuition

53. For the second stage—that of instruction in a particular type of work—we have examined the possibility of establishing a central training school and have reached the conclusion that it would be impracticable to devise a syllabus covering all kinds of clerical processes, and that in any event the numbers involved would be unmanageable. The matter must be dealt with departmentally. Although, as suggested in the three following paragraphs, there are three broad categories requiring different treatment, one principle is common to all, and that is the importance of avoiding an arrangement whereby a new entrant is simply placed next to a so-called instructor without any regularised scheme for his training.

54. First there are those Clerical Officers and analogous grades who come into contact with the public, such as Employment Clerks in the Ministry of Labour or Assistance Clerks in the Assistance Board. For training in work of this kind, much can be learned from the experience of the Post Office before the war in the training of its counter clerks. The principle underlying the Counter Clerks' School was that the training should be realistic and practical. The design of the School was an important feature of the scheme: Post Office counters with all the necessary stores were available and maps and framed specimens of the various documents in use were exhibited on the walls of bright and cheerful classrooms. Before the war eight students made up each class, and the course, which lasted 20 weeks and was interleaved with training in telegraphy, consisted of lectures, practical work in the School, attendance at actual counters in Post Offices, and visits to other branches. Practical work undertaken in an atmosphere reproducing the conditions existing at real counters was the essence of the scheme: one pupil acted as counter clerk and another as a customer bringing letters and parcels and receiving stamps and change. The teachers were not necessarily supervisors. They were not kept too long on training duties but returned to their normal occupation after a while to keep in touch with live work. Personal contact between pupils and instructors continued after the period of training. This system (simplified, shortened, and adapted, as may be necessary in other cases) may serve as a model for training for this type of work. It is one of the ways in which the pupil may acquire the right attitude to the public, combining prompt

and accurate handling of business with a willingness to help the person on the other side of the counter, and last but not least an agreeable and cheerful demeanour. The right and wrong ways of handling the public could be strikingly portrayed by the use of films.

55. The second category is composed of Clerical Officers engaged upon large-scale repetitive work. An example of training for this type of work may be found in the Claims and Record Office of the Ministry of Labour. Following this model, we suggest that training should be done by a designated supervisor or an instructor in charge of an instructional or "nursery" group. The pupil should move from one type of work to another in accordance with an orderly plan of progress, attaining reasonable speed and accuracy on each before he moves on to the next. Target dates should be set and performances recorded and reviewed by tests or other means at every stage. Certain types of clerical operation could readily be taught on the screen. All the time there should be an admixture of live work with the theoretical instruction. Transfer from the instructional group should take place only when a satisfactory standard of efficiency is attained. This involves a partly non-effective period of perhaps three to six months varying according to the nature of the work.

56. Finally there are the individual clerks working in miscellaneous divisions, where the organisation of instructional groups is impracticable. This type of clerk should undergo a preliminary course of training in a general registry before being posted to a more specialised post in a division. The instruction given should aim at impressing upon the recruit the importance to the work of the Office of what he is doing. His training in the clerical processes of registration should be supplemented by some broader tuition in the principles on which the indexing and filing of official papers are based, and their application to the varying needs of Departments. He should also be helped to obtain through the documents handled in the registry an insight into his Department's activities. Upon allocation to a division, the trainee should be placed under the care of a colleague chosen for his patience and power of imparting knowledge.

57. For scattered groups in outstations, the training arrangements proposed above should be organised on a regional basis, and the travelling and subsistence expenses of trainees borne by the Exchequer.

Training on other jobs to increase mobility

58. Clerical staff ought to be more easily transferable from one job to another than at present. As already observed, one of the obstacles in the way of mobility is the reluctance of supervising officers to release their staff, with the result that in the course of time too many fall into a rut. It is important that the interests of the Service should take first place, and that the mental agility, efficiency, versatility, and the suitability for promotion of Clerical Officers should be increased by a regular programme of progress through various branches of a Department, based on periodic reviews of each officer's progress. The results obtained in recent years by the institution of systematised moves in certain Departments fully justify this policy, and with that in mind we recommend the principle that, after the initial training period, transfers within a Department from branch to branch should take place at intervals which, while varying according to the nature of the work, should not normally exceed five years. The details should be worked out in consultation with the Staff Side of the Whitley Council of each Department in the light of its particular conditions.

59. There are grounds for thinking that large numbers of Clerical Officers would welcome a complete change of work and surroundings by transfer to another Department. This question is connected with training because any change of that kind will, in our view, tend to improve the general ability of the officers concerned. There are certain Departments or sub-Departments where large masses of routine work are dealt with at a high level of efficiency and where the training in rapid and accurate clerical work is already excellent; and these are just the Departments where a long period of employment tends to produce monotony and a feeling of frustration. If arrangements could be made to fill regularly a number of vacancies elsewhere by the transfer of Clerical Officers trained in these Departments, the Service as a whole would undoubtedly benefit. Where such transfers are voluntary, the question arises, however, of the seniority point at which the transferee enters a new Department. Under the existing rule, he must enter at the bottom of his grade, however many years' service he may have behind him. This question lies outside our terms of reference, but we hope that some means will be found to overcome this obstacle.

Training for supervisory duties

60. Paragraph 32 referred in general terms to the question of training for positions involving the control of others. Nowhere is this more important than at the level of Higher Clerical Officer and Staff Officer. Although the size of their subordinate staff and the nature of the work vary considerably from one Department to another, the chief function of most of these officers is the handling of a team. Their training should therefore include a study of the principles of supervision. Such a course ought to cover the planning of the supervisor's job to make the best use of his staff and accommodation; the assignment of duties in the light of each subordinate officer's personal characteristics; the training of newcomers, and a watch on their progress; methods of assuring that the work is properly performed; encouragement of initiative and confidence; an interest in the welfare of staff; and the importance of example in dealing both with other officers and with members of the public. We would leave Departments to evolve the details of schemes appropriate to their particular circumstances. Such schemes will be successful only if training is coupled with good promotion policy.

Background Training and Further Education

61. We have nothing to add to the general recommendations in paragraphs 34–42 except to say that they are particularly applicable to the Clerical Class.

Clerical Assistants

62. In 1939, there were approximately 15,000 established and 1,200 unestablished Clerical Assistants, all women. Recruitment was by open competition at the age of 16 to 17 or by the grant of establishment to Temporary Women Clerks after (normally) four years' satisfactory service. The duties of this class include the preparation and verification of straightforward documents, subject to check; simple arithmetical calculations; the simpler forms of registry work; simple correspondence of the stock type under well defined general instructions; and the operation of office machines.

63. Generally speaking, the arrangements which we have in mind for the Clerical Class appear to be suitable also for the sub-clerical classes, especially for Clerical Assistants, and the only special comment to be added is that where Clerical Assistants are employed upon machine-operating, the system of the departmental " school " is in our view the most satisfactory form of instruction.

Typing Grades

64. In 1939, there were approximately 12,000 established and 3,000 unestablished members of this group, including Superintendents. About half of the established staff and two-thirds of the unestablished were Copying Typists and Clerk-Typists (i.e. did not use shorthand). Recruitment of Typists and Clerk-Typists was by open competition between the ages of 16½ and 25, and of Shorthand Typists by competition limited to serving typing staff.

65. Since the war the standard of temporary typing staff has been uneven and, as labour shortage has increased, it has in some cases been very low. In these circumstances the Treasury in 1941 recommended all the main recruiting Departments to set up training schools for typists and instituted a system of proficiency allowances. The aim is not only to train new entrants but also to re-train sub-standard staff already in the Service at refresher courses. The period spent in the schools naturally varies according to the skill and progress of the individual, but the general result has been a marked improvement in typing standards.

66. We have considered whether training schools for Shorthand-Typists and Typists should be continued as a permanent arrangement. The primary issue is, however, really one of recruitment. It is impossible to make a good typist out of a girl who has had an inadequate general education, and the aim after the war should be to secure recruits of a better education as well as of a higher technical standard. All that would then be necessary would be a short initial course in Civil Service methods, possibly special courses for those wanting to become verbatim reporters, and refresher courses at a later stage. If, however, the situation after the war shows that there is not an adequate number of candidates of the requisite standard, then the Civil Service will be justified in continuing the present arrangement of training from the start within the Service, until a sufficient supply of qualified persons is available.

67. We have no other recommendation to make for the Typing Grades generally except in regard to typing staff employed in secretarial posts. Before taking up such work, a girl should be given some training in indexing, filing, telephoning, the use of the registry and library, the reception of visitors, and so on.

68. Finally, training in supervisory duties is especially important in the case of Superintendents of Typists. It should be given before promotion, should cover the fundamentals of personnel management, allocation of work, adjustment of load by keeping a check on output, and the proper use of modern equipment and machines, and could probably best be organised centrally.

Executive Classes

69. In 1939 there were approximately 5,000 civil servants in the General Executive Class. Recruitment was by open competition at the ages of 18 and 19 (with an extension of age for service in the Forces or for established civil servants) or by promotion within the Service. To this Class is assigned the higher work of the Supply and Accounting Departments, and of other executive or specialised branches of the Civil Service. The work covers a wide field, comprising in the junior ranks the critical examination of particular cases of lesser importance not falling clearly within approved regulations, initial investigations into matters of higher importance, and the immediate direction of small blocks of business ; and in its upper ranges matters of internal organisation and control, the settlement of broad questions arising out of business in hand or in contemplation, and the responsible conduct of important operations. If in the post-war Civil Service the Executive Class were given duties of a more

general character, as is already the case in some Departments, its training might have to be less specialised than is proposed in the following paragraphs and possibly more akin to the training later suggested for the Administrative Class.

70. Besides the General Executive Class there are several Departmental classes of Executive type, such as the Tax Inspectorate, Officers of Customs and Excise, and the Officer grades in the Ministry of Labour and the Assistance Board, whose duties call for similar qualities of judgment, initiative and resource. They numbered about 14,000 in 1939. Although our examination of the Executive area of the Service is made in terms of the General Class, much of what we recommend is adaptable also to the needs of these others.

71. The Executive Classes have a character of their own arising out of their responsibility for transacting the day-to-day business of government. Executive Officers may be engaged either on good quality individual work or on the organisation of small blocks of work and the supervision of subordinate staff, or sometimes on both functions. This broad distinction has to be borne in mind in any consideration of the training of Executive staff. Within the category of individual duties there is a wide variety, and among those assigned to the General Executive Class four types of work may be further distinguished: accounting, contracts, supply, and work of a specialised technique such as surtax assessment or national health insurance. Much of the work of the Departmental Executive Classes falls under the fourth heading. Each of these groups requires a different method of treatment, and it is difficult to lay down general rules applicable to all. The Executive Officer tends to become a specialist, and his training must therefore be largely devised on a departmental basis according to the needs of each particular case. Some degree of centralised training in organisation and methods might, however, be both useful and possible for certain Executive Officers in grades above the basic.

72. The composition of the Executive hierarchy presents another problem. The General Executive Class is not only recruited through the Executive Group Examination: a high proportion of its basic grade consists of former clerical staff either successful in that competition or promoted from the Clerical Grade, and any schemes of executive training must recognise that recruits by promotion differ in qualifications and experience from those recruited directly by examination, and that even within the latter group there are two classes, since some recruits by examination have already spent a year or two in a lower grade of the Service.

73. Allocation is nowhere more important than at the Executive level where the work is so widely divergent. At present no arrangement exists for allocation according to suitability. Care should be taken by Departments to avoid putting on accounting work, for example, a person who is not at home with figures, or one suited only to individual work on supervising duties. A good deal of trouble might be avoided if more attention were paid to this question. The re-allocation, where possible, of those who have obviously been put in the wrong place should form an essential feature of any departmental training scheme.

Reception Arrangements

74. The differences between the various types of Executive entrant must be kept in mind. For the entirely new recruit, the reception arrangements already proposed for the Clerical Class would be appropriate, but former Clerical Officers would not require preliminary instruction in departmental routine, save perhaps in certain exceptional circumstances, such as a change of Department.

Post-Reception Training

75. While some variation in training methods is necessary according to the type of work on which the officer is employed, we think that for all types the following arrangements are essential :

Live Work under Supervision

76. The method of training on " live " work under the personal supervision of an experienced officer is already in general use in Departments. This is a sound arrangement, so long as this officer is a good teacher, and so long as full allowance is made to him as well as to the trainee for the time spent on instruction. Practice in the dictation of correspondence and training in the use of dictating machines would be of special value to Executive Officers.

77. Tests of an informal character, written or oral, are in use in some Departments and in this field they might be found a useful method of testing an officer's competence.

The Acquisition of Wider Experience

78. As a general principle, movement from branch to branch in the early years of service should be developed on a systematic basis to give the young Executive Officer experience of several types of work while he is still at the training stage. Whilst, however, a tendency to excessive specialisation has to be guarded against, it must be borne in mind that in much Executive work specialisation is proper and it is impossible to lay down a hard and fast scheme of transfer in this sphere.

Background Training

79. All the Executive Classes should derive substantial benefit from general background training on the lines recommended in paragraphs 34–38 above.

Supplementary Training

80. Various other methods of training, in addition to the above, are desirable, although their nature must depend upon the type of work. We advise the adoption of the following suggestions in appropriate cases. All of them appear to be applicable to both types of recruit, whether by competition or promotion, though there would certainly be individual exceptions to the need for methods (i) and (iii).

(i) *Vocational Lectures*

81. Here we are thinking not of the general background lecture but of something more concrete and specialised, of which the Board of Trade's course of two weeks for its Area Distribution Officers is a good example. Similarly the Post Office arranges discussion groups on finance, accountancy, and statistical methods for Executive staff in the Accountant General's Department. Such arrangements give the theoretical background required for a particular job and are therefore most appropriate for those employed on professional, semi-professional or highly specialised techniques, or for officers engaged on the organisation of blocks of work where fresh tasks are being undertaken.

82. Such arrangements cannot cover the whole ground ; they need to be supplemented by private study through the medium of outside professional institutions. As has been suggested earlier, it is one of the difficulties of training in the Executive Class that the officer reaching it by promotion will have left school at an earlier age than the open competition entrant. Recruitment and promotion lie outside our terms of reference and it is not for us to suggest how opportunities for advancement might be linked with further education of a general character. In our view, however, it should

be part of the training of Clerical Officers promoted to the Executive Grade to encourage them to acquire educational or specialised qualifications by private study, where suitable courses are available.

(ii) *Conference and Discussion*

83. The method of conference referred to in paragraph 35 is especially valuable to the Executive Officer. Discussion of the difficulties arising in the execution of a particular policy, above all at its inception, can be very helpful to the inexperienced officer, perhaps more so in this field than anywhere else.

(iii) *The Study of Organisation and Methods*

84. We referred in paragraph 33 to the training in Organisation and Methods initiated by the Treasury. This tuition is at present largely confined to Administrative and other staff employed, or to be employed, on Organisation and Methods work in Departments. In addition to such persons, there are many whose efficiency would be increased if they had a background of this kind. We hope that it will be possible in time for those members of the Executive Class above the basic grade who may have to organise blocks of work and supervise staff to receive a certain amount of training not only in the supervision of others, on the lines recommended earlier for Higher Clerical Officers and Staff Officers, but also in office organisation.

(iv) *The Study of Outside Methods*

85. A wider first-hand knowledge of the practice of the business world would be valuable to those members of the Executive Class who are engaged on semi-commercial operations. In particular, senior men employed upon supply or contracts work might with advantage, we think, acquire a closer acquaintance with those aspects of commerce and industry which affect their work. The general question of interchange between the Civil Service and business is discussed further in connection with the Administrative Class.

86. At the highest levels of the Executive Class there is scope for the application of some of the arrangements later proposed for the Administrative Class.

Professional and Technical Classes

87. For the reasons set out in paragraph 4, we have not attempted to study in detail the training of the various professional, scientific and technical staffs in the Civil Service. We content ourselves with the suggestion that Departments employing such staff should look at the general aims laid down and should consider how far they are applicable to the specialist grades under their control. New entrants to these classes might for example usefully share in the reception arrangements and background training which we have recommended for all civil servants, so that they may be seized of the functions of the Government machine generally and the procedure of their own Departments in particular. Members of these grades who are in certain respects analogous with the Administrative Class and the higher levels of the Executive Class should also be given, where appropriate, the same opportunities for acquiring wider experience by the study of outside methods already proposed and by the other means indicated in subsequent paragraphs on training for administrative work.

88. Lastly, we have considered whether arrangements should be made for professionally unqualified officers such as those in the Valuation Department of the Inland Revenue to acquire the professional qualifications without

which they cannot advance in their own Departments, where these cannot be gained within the Service. We have reached the conclusion that, as the field affected is so large and diverse, we cannot go further here than to suggest that there is scope for enquiry into this question by Departments where the problem exists.

Administrative Class

89. In 1939, there were just over 2,000 established and less than 100. unestablished civil servants in the Administrative Class. Recruitment was by open competition at the ages of 21 to 24 (with an extension of age for service in the Forces and for established civil servants) normally of candidates of high University Honours standard, and by internal promotion. The duties of this Class are concerned with the formation of policy, with the co-ordination and improvement of Government machinery, and with the general administration and control of the Departments of the Public Service.

90. The training problem here is largely related to the open competition entrant or to the promoted man or woman who enters the cadet grade of Assistant Principal. The older entrant by promotion from within the Service normally comes into the Administrative Class as a Principal and is usually over thirty; and while he should participate in any suitable background training or refresher courses, he hardly requires the intensive preparation appropriate to the new recruit or young promoted man.

91. In the past too little attention has been paid to the post-entry training of the Administrative entrant to the Civil Service. The method of training—if it can be called a method—has been too much a matter of hit or miss, sink or swim. Generally the new entrant has been given a desk and left to look at papers, or to try his hand at dealing with them, as they come along, with such guidance and advice as his immediate superior may give. Unfortunately, his senior is often so hard-pressed that he finds it easier to do the work again himself, where necessary, than to teach the junior his job. Such training as the new recruit gets comes from observing the work of others. This is not however because it has been found by experience that theoretical teaching is useless to him, but either because it has not been considered or because it has been assumed to be useless. We think such an assumption mistaken. While administration can be represented as being primarily a matter of commonsense, we believe that the achievement of the balanced judgment which is the real meaning of commonsense in this connection can be hastened and facilitated by a well thought-out training scheme.

92. What the beginner needs is a greater knowledge of facts on the one hand and a better grasp of the implications of what he is doing on the other. The first can be acquired gradually by live work, supplemented by departmental training and informative lectures. The second, under the present system, he is left to build up from the cases that come before him and the remarks of his superiors. If he is the right sort of recruit he does no doubt in time acquire a conception of Civil Service administration—with its need for bringing into harmony the ideal and the practicable, the legally permissible and the politically possible—against which all his future decisions are consciously or unconsciously tested. But the process must be a slow one, since the examples which impress his mind come before him successively over a period of years, and he has no framework of ideas into which to fit them. Such a framework can be supplied by a course of instruction at the beginning of his career.

93. There is, of course, something to be said for the immediate plunge into day-to-day work. Young men and women of 21 to 24, after a long spell of school and university life, are above all anxious to do a job of work. They

might well be discouraged by the prospect of a further period of tuition, and any scheme of training which ignored this fundamental and healthy psychological reaction would be seriously handicapped. At the same time, the disadvantages, more especially on the long-term view, inherent in the policy of leaving the recruit to learn his job by trial and error are very formidable. They include not only delay in his becoming a fully effective member of the Department, but also a risk of dissipating the enthusiasm with which he enters on his first job. Is it possible to avoid these disadvantages without raising the difficulties likely to be associated with a too lengthy or too theoretical course of training? We think that it is and we recommend centralised training in administration which would give the recruit the idea that administration means something more than taking a number of unrelated decisions on disconnected files; that what he is doing is to contribute to the formation or operation of a policy; that such processes are going on in many Departments beside his own; that solutions, some good, some not so good, have been found for the difficulties they raise; that there are generally a number of alternative methods of operating a policy besides the one his Department has chosen; and that his mind should be constantly on the alert to criticise or to justify.

94. The first point to be considered is whether training on such lines should precede or follow allocation to a specific Department. We attach much importance to good allocation and are anxious to improve upon the pre-war system which depended upon the successful candidate's own choice of Department, subject only to his place on the examination list entitling him to his preference. Some of us would therefore have preferred to defer allocation until after a short period of initial training in the hope that those responsible for the training would be able to help in a more carefully devised system of allocation designed to put every round peg into a round hole. Others of us, while appreciating that point, are more concerned that the Administrative cadet should make contact with a Department immediately on entry, and so be able to test the impressions of his training against departmental reality by combining theoretical training with small but increasing doses of live work. On the whole, although still of opinion that the existing system of allocation in the light of the candidate's preferences is unsatisfactory, we have come to the conclusion that allocation should precede training.

95. We are of opinion, therefore, that the Administrative cadet should be allocated on entry to the sort of Department to which he seems best suited, and, after going through the same reception arrangements as the Clerical and Executive entrants, should receive concurrently training on three separate lines. These would fall under the headings: (i) Central Training; (ii) Departmental discussions, talks, visits, etc.; (iii) Live work in his Department.

Initial Training

(i) *Central Training*

96. We have paid particular attention to the right form of agency for this purpose. A possible plan would be to send Administrative cadets to courses specially arranged by the Universities and other existing educational institutions. We do not favour an arrangement of this kind. In the first place, while the Universities might be able to arrange courses in public administration or in other specified subjects likely to be of value to those concerned, their remoteness from the actual processes of Civil Service administration would narrowly limit their usefulness. Moreover, if work in a Department is to be combined, in the way suggested, with centralised training, the provision of such training is best handled by the Civil Service itself, with such assistance from academic sources as may be necessary. There is no parallel here—nor

do we think that it would be desirable to devise one—with the post-graduate full-time University Courses which form part of the initial training of entrants to the Indian Civil Service and the Colonial Service. We therefore recommend that this first general training for the Administrative cadet should be in the hands of the Civil Service under the Director of Training and Education.

97. Without laying down a very detailed curriculum, it may be as well to give some general idea of what we have in mind. The course should last anything from two to three months, requiring an average attendance throughout that period of about two days a week but possibly beginning with an intensive course, more or less on a full-time basis, say, for the first fortnight and tapering away towards the end of the period.

98. The object of the course would be to shorten the process by which the recruit forms his own administrative standards and to inculcate from the beginning of his service a professional approach. It would familiarise him from the start with the various types of problems which arise in the Service, the factors which have to be taken into account in solving them, and the sort of solutions which have been found successful. The instruction would take the form of lectures, reading and discussion classes. The lectures would cover the following ground:

(1) An explanation of the functions of the various Departments and their relations with the public.

(2) The financial and parliamentary background of the administrator's work.

(3) A study of the administrative machine, indicating the type of organisation through which Government Departments have worked, the agents and mechanical devices at their disposal and the technique of orders, forms, codes of instructions, etc.; the internal organisation of a Headquarters Office and the use of the expert by the non-expert.

(4) Study of the meaning of the term 'administration' with illustrations from large-scale administrative schemes put into operation in the past, showing what circumstances the administrator has had to bear in mind, how he has obtained the necessary data for decision, what considerations have led to the adoption of particular expedients, and how far and for what reasons they have proved successful or unsuccessful.

(5) Methods of securing the co-operation of the public in the operation of a policy.

(6) Inculcation of high Civil Service standards; the need for a sense of urgency, and for accuracy and decision; avoidance of incomprehensible instructions and of the appearance of uncertainty of purpose, and the need for constant comparison of performance with the standard attainable.

(7) The course should include some training in methods of preparing and presenting statistics, and the logical principles underlying their interpretation. Government policy must often be largely based upon statistical evidence, and there is scope here for some training in a subject which is of vital importance to the efficiency of the Service.

99. With such a preparation of his mind for the job, every bit of live work, however small in itself, would have more meaning for the recruit than it has at present, and his individual experience could not fail to be more fruitful. Experience would of course still be, as it now is, the most important single influence in the development of his professional capacity.

100. The fact that a recruit had already become specially interested in one Department would make the course practical instead of academic and greatly increase the vividness of his interest. The presence of other recruits attached to different Departments would vary the angles of approach and make the

discussions more lively in that comparisons could be drawn from the experience of the pupils. The tuition would, we contemplate, be provided partly by persons expert in training or teaching and partly by experienced civil servants able to impart the fruits of their experience.

101. The institution of the initial course might lead to further developments —courses that would be of value and interest to senior officers ; research into particular problems, and the study of developments in the sphere of public administration. At the outset there would be required one or two well-equipped lecture-rooms, a common-room, rooms for staff and above all a well-stocked library. At this centre mechanical devices could be exhibited and their use discussed. All such activities ought to be under the Treasury Director of Training and Education. It is, however, desirable that they should be carried out in close association with the Civil Service Commission. and that, if practicable, the accommodation required should be in or adjoining the Offices of the Commission. From such modest beginnings might develop a centre which could serve as a clearing house of ideas for Civil Service administrators and a repository of schemes, successful and unsuccessful, which have been tried out in practice. It could organise refresher courses in which something resembling the methods of the Military Staff College could be attempted, officers of various Departments getting together in study groups to work out hypothetical or actual administrative problems. In such discussions representatives of commerce and industry and other organisations might be invited to participate, and the sharing of experience between business men and civil servants would be mutually valuable. We recommend that the fullest use should be made of the centre for all these purposes.

(ii) *Live Work in a Department*

102. Parallel with the general centralised training which will be applicable to all new entrants alike, an initial training within his Department will be needed for the individual recruit. He should be allocated to a branch and should begin a certain amount of practice on live work from the outset. It is a matter of importance that the branch should be carefully chosen both for the nature of the work and for the tutorial ability of his superior officer, and that a sense of responsibility for the proper employment and progress of the trainee should be inculcated in the minds of all under whom he works.

(iii) *Departmental Discussion, Talks, Visits, etc.*

103. Wherever possible, the Administrative entrant should share the initial training arrangements made for the Clerical and Executive Grades. He should spend a little time in the registry to get a bird's-eye view of the Department and a first acquaintance with the registration and filing system. In addition, we have noted with interest the arrangement made by one business house for bridging the difficult transition from the university to a job in the world, by which a " business tutor " is detailed to give the young graduate a continuity of guidance during his period as a trainee. This idea could we think be profitably adapted to the Civil Service by the organisation of " tutorial " discussions with those responsible for the general training schemes of the Department and with experienced officers of various ranks in branches or sub-Departments other than that to which the recruit has been posted. Variety and system are here equally essential.

Training for Mobility

104. On the completion of the centralised training, which would normally be about three months after entry, the Administrative recruit would be available full time in his Department. His training would be continued there in

a variety of ways—not only in those already described, namely, live work under an experienced officer and appropriate background training in the form of discussions and visits—but by a carefully planned movement from job to job. Mobility and adaptability are particularly important in the Administrative grade. Every effort ought to be made to ensure that an Assistant Principal, before he reaches the stage of being considered for promotion to Principal, has as wide an experience as possible of his Department. In general, he ought never to be left for more than two years in any one branch and, wherever possible, movement ought to take place at more frequent intervals than that.

105. Extremely valuable experience can be gained by work as a private secretary, whether to a Minister or to a senior official. In the former case, the young man or woman gains an intimate acquaintance with Parliamentary routine and grows accustomed to think of the reactions of policy upon Members of Parliament and the public whom they represent. An efficient private secretary service must be the paramount object but, subject to that consideration, the more Assistant Principals that can be given a period on such work the better. To spread the value of this training more widely, the duration of each appointment should not be too long.

Field Work

106. The training which we have so far recommended for the cadet grade of the Administrative Class is applicable to all Departments which have only a headquarters organisation. Departments with a regional or divisional organisation, or with any form of field work, can do a great deal more. Given the existing system of recruitment and the type of responsibility for which the Assistant Principal is being trained, the leaders of the Civil Service in the future will be all the better fitted for their jobs if in their younger days they have seen the work of the Department at its circumference as well as at its centre. It is essential, however, that they should be made to do a real job of work in the "field" and to shoulder actual responsibility, especially in the handling of the public. Visits and watching others work are not sufficient.

107. The arrangements will necessarily vary from Department to Department. The Post Office, after experimenting with alternatives, are now contemplating a scheme under which the Assistant Principal would spend six months at Headquarters, six at a Head Post Office in the Provinces, twelve at Headquarters (to complete the probationary period), then two years at a Regional Office before returning to Headquarters. The Ministry of Labour preference on the other hand is for two years at Headquarters followed by six months in a Region. The Ministry of Health have also made experimental war-time arrangements with its regional offices. We express no preference between one system and another; what we do urge is that every Department with facilities for doing so should give its Assistant Principals a period of training on actual work in the field even where at first sight there is a specialist tinge to the work away from headquarters and an apparent distinction between that work and the task of the administrator at headquarters. In addition to the Post Office and the Ministry of Labour, Departments like the Ministry of Agriculture and Fisheries, the Assistance Board, the Board of Education, the Revenue Departments, the corresponding Scottish Departments, the Service Departments and indeed any Department with work to be done in the field, should be able to make such arrangements. Some have already done so. Even those without any regional organisation of their own should be able, without much difficulty, to arrange facilities for giving practical experience in some closely associated field.

Training for Higher Administration

108. For the great bulk of the Civil Service, the proposals already outlined provide in our opinion a framework applicable, with certain adjustments, to refresher as well as to initial training. There remains, however, the question of the training of those holding, or about to hold, positions of high responsibility in any sphere of Civil Service activity.

109. We share the view, expressed in a number of quarters, that there comes a time, normally, we suggest, in the early thirties, when either a complete change of environment or an opportunity to stand back from one's job and to shake oneself free from the daily routine is most desirable in order to gain a broader vision and some fresh experience. Change of environment can be obtained to some extent within the Civil Service by transfer from one Department to another and by transfer from headquarters to outstation or vice versa. We have no doubt as to the desirability of such moves for refresher purposes or for widening experience, or that the Service as a whole would benefit if there were more movement between Departments at this level.

110. But something more is wanted—the opportunity to get away for a time into a different atmosphere altogether, by a period of secondment elsewhere, for example to outside business or a local authority. We do not consider that secondment to the business world would be of any great value unless the civil servant could do an actual job of work and be entrusted with real responsibility. Witnesses from commerce and industry advise us that it is doubtful if he could—unless the circumstances were very exceptional and unless he could be spared for anything up to two years, which seems unlikely. We therefore make no positive recommendation in this respect, although we do not rule out the possibility that advantage might come of an experiment.

111. We are well aware, however, that one of the criticisms of the Civil Service is that it is not sufficiently alive to the possible effect of its actions upon business undertakings and that its members, in those Departments which come into daily contact with commerce and industry, ought to be equipped with a fuller understanding of their problems. In our consideration of training for higher administration we have therefore given attention to the possibility of arranging for civil servants from such Departments to gain closer touch with outside business by means which do not present the same difficulties as long-term secondment. In suitable cases at this level there is scope for visits and periods of observation, varying in duration from a week or so to a maximum of two or three months. Such visits would be of value both to Departments and to the civil servants concerned and we recommend that arrangements should be made, in co-operation with suitable concerns, to enable selected civil servants to acquire in this way a better insight into the methods and problems of the industrial and commercial world. We believe, too, that these visits would give business men a better understanding of the point of view of the civil servant.

112. There is clearly more promise and less difficulty about secondment to —or indeed interchange on a two-way basis with—a local authority. Here the civil servant would have opportunities for appreciating more readily the impact of action at the centre upon local government and upon the general public. The Departments most likely to be able to take advantage of such arrangements would presumably be the Ministry of Health, the Board of Education and the corresponding Scottish Departments. Tentative steps have been taken in the past by one or other of them. They should now be invited to consider the matter afresh and, after consultation with the appropriate local authority organisations, to report on the practicability of bringing something of this kind into operation.

113. We have dealt in paragraphs 43 to 47 with the proposal for the establishment of a Staff College. It has been suggested to us that one of the values attaching to such a College would be the facilities it might offer for providing suitable refresher courses at the stage we have in mind, when a new stimulus and freshening of outlook are desired. In Part I of this Report we have already explained why we have come to the conclusion that these should be attained by other means, although we did not exclude the possibility of sending civil servants as an experiment to the National Administrative Staff College if that institution were set up by the interests concerned. We have now to suggest what these other means are.

114. In the first place, there is little doubt that existing academic institutions would be able and willing to provide courses adapted to the needs of civil servants, in such subjects as the social sciences, economics and statistics. In their report presented to the President of the United States in 1941, the Committee on Civil Service Improvement recommended educational leave for advanced training purposes. We are in sympathy with this recommendation and suggest that selected civil servants—say in the early thirties—should be granted a period of sabbatical leave to pursue an approved course or to undertake a task of research, either in this country or abroad. Such leave should be with pay and should count as service for purposes of pension.

115. A further possibility, which we strongly commend, is that selected officials should be given an opportunity to travel abroad to study aspects of Government or public administration likely to be of value. If the problems of the business world are different from those of the Civil Service, the problems of other Governments are essentially similar. Study of the ways in which they are tackled abroad would be worth while in itself as a safeguard against insularity, as well as providing a stimulant which would be of great benefit to the Service. One way in which we hope that this may be possible in the post-war Civil Service is by the arrangement of short-term transfers from Whitehall to the various outposts of the Home Service outside the United Kingdom including the Dominions, and to the Foreign and Colonial Services, and (if appropriate) to the Indian Civil Service. Although the numbers who could take advantage of these arrangements would be small, such experience would, we believe, be of particular value in the training of those destined for the highest posts.

116. It is of course, clear that arrangements of the kind described in paragraphs 114 and 115 could apply only to a strictly limited number of civil servants selected for the promise which they show of being worthy of eventual promotion to high administrative rank. And, even in the case of those selected, only one of the different types of sabbatical leave would normally be possible ; each of the persons chosen should be given an opportunity of having that kind of " refresher " which is most appropriate to his individual case.

117. It is not our intention that the various proposals made in this section should be confined to the Administrative Class. On the contrary, we attach considerable importance to the application of some of them to selected members of other grades, especially the Executive and Professional or Technical.

CONCLUSION

118. During the last two or three decades the activities and influence of Government have been widely extended in scope, and the points of contact between members of the community and its servants greatly increased. At the same time there has been a quickening of pace and an intensification of

effort in all fields of human activity, and with them a raising of the standards of efficiency demanded in all directions. These trends can be expected to continue, especially following the war, and the Civil Service is likely to be called both to new tasks and to a higher level of performance of the old. Like other organisms it has to a considerable extent already adjusted itself to changing conditions, but not so fully as might be, and rather under compulsion of events than by deliberate intent. At the stage now reached in the national life and in its own development the Civil Service needs to be more consciously directed towards still higher ideals and standards of service, and this can only be done by planned and purposeful training.

119. For this we have tried to provide. While our scheme is experimental in the sense of being the first attempt to devise a system of training for all civil servants, aiming both to increase the competence of the individual and to give the whole profession a higher conception of the contribution it can make to the welfare, happiness and good government of the community, some of its features are already in successful operation in the Service or elsewhere, and we do not doubt that the rest will also be productive of good and early results. But alone they will not suffice to attain our objective of a Civil Service keyed up to meet the demands of its generation not only successfully but acceptably to the community. For this the Service must be pervaded with a sense of its obligations to the citizen as well as to the Crown. The faults we have recited earlier can be pointed out and to some extent prevented in the lecture-room, but if there is to be an ever-present consciousness of the importance of clarity of thought, directness of action, simplicity of expression, speed, initiative, considerateness and the other virtues in which civil servants are said to be deficient, these must be the key-notes of daily practice in all ranks from the highest downwards. It is our hope that if training—the idea that, besides being told what their jobs are, people need to be guided into the right way to do them—is given due prominence as a cardinal feature of good staff management, and if our scheme is worked with enthusiasm and vision, the whole Service will in due course be brought to an appreciation of the higher standards attainable and will be inspired by the force of example to attain them.

120. We rate high the need for civil servants to acquire the right attitude of consideration and sympathy towards members of the public, but would add that this attitude should be mutual. Public servants, like everyone else, respond to praise and blame, and enthusiasm and a spirit of service cannot be expected to flourish among them if they feel that their efforts are being disparaged, and their difficulties overlooked, by those whom they are endeavouring to serve. A more generous appreciation by the public of the work of the Civil Service would go far to ensure that such appreciation was increasingly deserved.

121. We wish to record our thanks to our Secretary, Mr. Newton of the Treasury, and to express our high appreciation of his work. He has been of the greatest assistance to us in collecting and sifting a considerable volume of evidence and in the preparation of the Report. His thoroughness, patience, and helpfulness have placed us under an obligation to him which we are glad to acknowledge.

(Signed) RALPH ASSHETON
MYRA CURTIS
A. J. T. DAY
T. R. GARDINER
H. HARTLEY
A. L. N. D. HOUGHTON
KENNETH LEE
H. WILSON SMITH
R. S. WOOD

April, 1944

APPENDIX I

Memoranda were received from the following sources, amongst others:

(1) H.M. Treasury.
(2) Air Ministry.
(3) Assistance Board.
(4) Ministry of Food.
(5) General Post Office.
(6) Ministry of Health.
(7) Home Office.
(8) Board of Inland Revenue.
(9) Ministry of Labour and National Service.
(10) Ministry of Pensions.
(11) Board of Trade.
(12) War Office.
(13) Staff Side, Civil Service National Whitley Council.
(14) Institution of Professional Civil Servants.
(15) Parliamentary and Scientific Committee.
(16) Bank of England.
(17) Messrs. Boots Pure Drug Company.
(18) Messrs. Harrods.
(19) Imperial Chemical Industries.
(20) Lever Brothers and Unilever.
(21) L.M.S. Railway Company.
(22) Messrs. J. Lyons.
(23) Messrs. Stewarts and Lloyds.
(24) United Steel.
(25) Westminster Bank.
(26) Council for the Further Education of Civil Servants.
(27) Joint University Council for Social Studies and Public Administration.
(28) National Administrative Staff College Group.

APPENDIX II

The following witnesses gave oral evidence:

(1) Sir Hugh Beaver (Sir Alexander Gibb and Partners; Director-General, Ministry of Works).
(2) Mr. D. N. Chester (Chairman, Public Administration Committee of the Joint University Council for Social Studies and Public Administration; Chief Economic Assistant, Offices of the War Cabinet).
(3) Sir Graham Cunningham (Chairman, Triplex Glass Companies; Controller-General of Munitions Production, Ministry of Supply).
(4) Mr. C. B. Frisby (Director of the National Institute of Industrial Psychology).
(5) Sir George Gater (Permanent Under-Secretary of State, Colonial Office; formerly Clerk of the London County Council).
(6) Mr. J. E. Greenwood (Director, Messrs. Boots Pure Drug Company).
(7) Mr. Geoffrey Heyworth (representing the National Administrative Staff College Group).
(8) Professor W. Hamilton Whyte (Chairman of the Joint University Council for Social Studies and Public Administration).
(9) Professor Harold Laski (London School of Economics).
(10) Mr. F. W. Lawe (Personnel Manager, Messrs. Harrods).
(11) Mr. R. Lloyd Roberts (Personnel Manager, Imperial Chemical Industries; Under-Secretary, Ministry of Labour).
(12) Mr. J. P. R. Maud (Master of Birkbeck College, University of London; Second Secretary, Ministry of Reconstruction).
(13) Miss N. Milnes (Joint University Council for Social Studies and Public Administration).
(14) Mr. I. J. Pitman (Chairman and Managing Director of Sir Isaac Pitman and Sons; Director of Organisation and Methods, H.M. Treasury).
(15) Professor Lionel Robbins (London School of Economics; Director of Economic Section, Offices of the War Cabinet).
(16) Sir Eric Salmon (representing the National Administrative Staff College Group).
(17) Mr. J. Dyer Simpson (General Manager, Royal Insurance Company; lately Director-General of Administrative Services, Ministry of Supply).
(18) Mr. H. I. Swainston (representing the National Administrative Staff College Group).
(19) Colonel L. Urwick (Chairman, Urwick, Orr and Partners).
(20) Brigadier G. C. Wickins (General Post Office).
(21) Mr. Arthur Woodburn, M.P. (Chairman, Finance and Establishments Sub-Committee of the Select Committee on National Expenditure).
(22) The Right Hon. Lord Woolton (Minister of Reconstruction).

LONDON
PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE
To be purchased directly from H.M. STATIONERY OFFICE at the following addresses:
York House, Kingsway, London, W.C.2; 13a Castle Street, Edinburgh 2;
39-41 King Street, Manchester 2; 1 St. Andrew's Crescent, Cardiff;
80 Chichester Street, Belfast;
or through any bookseller
(Reprinted 1945)

1944

(40283 Wt.1341— 2/45 D.L. G. 390 *(T.S. 20086)*

D. 1945

EMPLOYMENT POLICY

Cx.p.26.

Presented by the Minister of Reconstruction to Parliament
by Command of His Majesty
May 1944

LONDON
HIS MAJESTY'S STATIONERY OFFICE
SIXPENCE NET

Cmd. 6527

TABLE OF CONTENTS

Chapter		Page
	FOREWORD	3
I	The International and Industrial Background	4
II	The Transition from War to Peace	6
III	The Balanced Distribution of Industry and Labour	10
IV	General Conditions of a High and Stable Level of Employment ...	15
	(a) The Maintenance of Total Expenditure	16
	(b) The Stability of Prices and Wages	18
	(c) The Mobility of Labour	19
V	Methods for Maintaining Total Expenditure	20
	(a) Capital Expenditure	20
	(b) Consumption Expenditure	22
	(c) Central Finance	24
VI	The Policy in Practice	26

APPENDICES

I Unemployment in Great Britain from 1858–1938.

II Variation of Social Insurance Contributions.

EMPLOYMENT POLICY

FOREWORD

The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war. This Paper outlines the policy which they propose to follow in pursuit of that aim.

A country will not suffer from mass unemployment so long as the total demand for its goods and services is maintained at a high level. But in this country we are obliged to consider external no less than internal demand. The Government are therefore seeking to create, through collaboration between the nations, conditions of international trade which will make it possible for all countries to pursue policies of full employment to their mutual advantage. The discussions which have been undertaken to this end are briefly mentioned in Chapter I of this Paper.

If by these means the necessary expansion of our external trade can be assured, the Government believe that widespread unemployment in this country can be prevented by a policy for maintaining total internal expenditure. The measures by which such expenditure will be influenced are described in Chapters IV and V.

There will, however, be no problem of general unemployment in the years immediately after the end of the war in Europe. In this transition period our problems, though no less difficult, will be different. It will be a period of shortages. Though there will be risk of unemployment due to the dislocation involved in the gradual change from war to peace, the total man-power available will be insufficient to satisfy the total demand for goods and services. It is likely to be some time before the need arises to put into operation the long-term policy for averting mass unemployment which is described in Chapters IV and V. The Paper therefore deals first, in Chapters II and III, with the special problems of the transition period and the measures to be taken for preventing local unemployment by securing a balanced distribution of industry and labour.

Unlike other Papers on post-war problems which the Government have presented or are preparing, this is not primarily an outline of projected legislation. For employment cannot be created by Act of Parliament or by Government action alone. Government policy will be directed to bringing about conditions favourable to the maintenance of a high level of employment; and some legislation will be required to confer powers which are needed for that purpose. But the success of the policy outlined in this Paper will ultimately depend on the understanding and support of the community as a whole—and especially on the efforts of employers and workers in industry; for without a rising standard of industrial efficiency we cannot achieve a high level of employment combined with a rising standard of living.

CHAPTER I

THE INTERNATIONAL AND INDUSTRIAL BACKGROUND

1. This Paper is concerned with the course of policy which the Government propose to follow internally in order to maintain the highest possible level of employment. But the level of employment and the standard of living which we can maintain in this country do not depend only upon conditions at home. We must continue to import from abroad a large proportion of our foodstuffs and raw materials, and to a greater extent than ever before we shall have to pay for them by the export of our goods and services. For as the result of two world wars we have had to sacrifice by far the greater part of the foreign investments which we built up over many years when we were the leading creditor country of the world. It will not, therefore, be enough to maintain the volume of our pre-war exports; we shall have to expand them greatly.

2. A country dependent on exports—and relying largely, as we do, on the export of manufactured goods of high quality—needs prosperity in its oversea markets. This cannot be achieved without effective collaboration among the nations. It is therefore an essential part of the Government's employment policy to co-operate actively with other nations, in the first place for the re-establishment of general economic stability after the shocks of the war, and next for the progressive expansion of trade.

3. The aims of this international co-operation are to promote the beneficial exchange of goods and services between nations, to ensure reasonably stable rates of exchange, and to check the swings in world commodity prices which alternately inflate and destroy the incomes of the primary producers of foodstuffs and raw materials. It will also be necessary to arrange that countries which are faced with temporary difficulties in their balance of payments shall be able both to take exceptional measures to regulate their imports and to call on other nations, as good neighbours, to come to their help, so that their difficulties may be eased without recourse to measures which would permanently arrest the flow of international trade.

4. The Government have already given proof of their intentions. They have signed the Atlantic Charter. They have made a Mutual Aid Agreement with the Government of the United States of America,* one of the chief aims of which is agreed action " directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods." They have also declared their acceptance of the comprehensive recommendations made to the Governments and authorities of forty-four nations by the United Nations Conference on Food and Agriculture held at Hot Springs in 1943, in so far as those recommendations are applicable to conditions in the United Kingdom. One of those recommendations† recognises that " the promotion of the full employment of human and material resources, based on sound social and economic policies, is the first condition of a general and progressive increase in production and purchasing power. . . . Progress by individual nations toward a higher standard of living contributes to the solution of broader economic problems, but freedom from want cannot be achieved without effective collaboration among nations."

The Government are considering, with the Governments of others of the United Nations, how these general agreements regarding the common ends of

* Cmd. 6341, 1942. Part of Article VII.

† Cmd. 6451, 1943. Resolution XXIV. Achievement of an Economy of Abundance.

international economic policy can best be carried out in practice. For this purpose they are working in close consultation with the Governments of the Dominions and of India. The early renewal of the economic strength of the British Commonwealth of Nations and the economic development of our Colonial dependencies are among the substantial contributions we can make to stability in the world's economic order. The Government will also collaborate with other Governments in considering how effect may be given to the principles and recommendations recently put forward by the International Labour Organisation. Further reports on all these matters will be made to Parliament in due course.

5. While the Government will spare no effort to create, in collaboration with other Governments, conditions favourable to the expansion of our export trade, it is with industry that the responsibility and initiative must rest for making the most of their opportunities to recover their export markets and to find fresh outlets for their products. In the interest of the whole national economy, our export industries must be resilient and flexible; and in the period immediately after the end of the war their claims for raw materials, labour and factory space freed from war purposes must have a high priority.

6. Though there will be special reasons for giving this measure of early priority to the export trades, the need for increased efficiency in industry is in no way limited to those trades. To maintain and improve our standard of living there must be steady progress in the efficiency of our industry as a whole. During the war British industry has amply demonstrated its power to improve the technique of its production, and this improvement must continue if we are to solve the problems of the post-war years. The Government have been considering, as part of their general reconstruction plans, what help they can give to this end. The Chancellor of the Exchequer has already announced in his Budget speech the means by which taxation policy will be adapted to foster the development of industrial research, and to facilitate the modernisation of industrial plant, machinery and buildings. These important modifications in the incidence of taxation on industry will make a substantial contribution towards industrial recovery after the war and will pave the way for a continuous technical advance throughout British industry. The means of promoting industrial efficiency will be kept under constant review—other proposals to this end are already under examination—and the Government will continue from time to time to report their conclusions or present their proposals to Parliament on this subject.

7. The earlier paragraphs of this Chapter, which were concerned with the balance of payments and the export trades, referred mainly to the manufacturing industries. In the remainder of this Paper the term " industry " is used in its widest sense to cover all the manifold activities which provide employment. Thus, it includes, not only the manufacturing and processing industries, but the industries providing raw materials and primary products, such as agriculture, forestry, fishing and mining, services such as shipping, inland transport and the distributive trades, and all the varied activities of commerce.

The prosperity of a particular industry depends partly on circumstances peculiar to that industry and partly on the general economic condition of the country. This Paper sets forth the Government's policy for securing general conditions favourable to a high level of employment throughout industry as a whole. In addition, special measures may be taken from time to time which are directed to the circumstances of particular industries. The Government have, for example, declared their determination to ensure that we shall have in this country after the war a healthy and well-balanced agriculture; and the special measures needed to secure this are now being discussed with representatives of the industry. This Paper does not deal with

special measures which are peculiar to a particular industry. But all alike will benefit from the general policy which it describes; for, to the extent that this policy succeeds in maintaining a high level of employment, it will sustain the demand for goods and services of all kinds.

CHAPTER II

THE TRANSITION FROM WAR TO PEACE

8. After the end of the war with Germany, the war with Japan will have first call on our resources of man-power and materials. There will, however, be some redistribution of man-power which will release labour for urgent civilian work. At this point we shall enter a period of unsettled economic conditions, which is likely to last until some time after the end of war with Japan. The plans for this transition period must be extremely flexible; for no one can yet know when the war with Germany will come to an end or how long thereafter Japanese resistance will continue.

9. During the present war, as during the last, unemployment has shrunk to negligible proportions. In April, 1944, the figure was 75,000; whereas during the years between the wars it varied between one and three millions.* The reasons for this improvement are obvious. The call of the Armed Forces for men and munitions is limited only by the availability of labour and other physical resources. There could therefore be no question of demand falling short of the level necessary to employ all available resources. On the contrary, steps have had to be taken to hold demand in check and to prevent a runaway rise of prices by such means as high taxation and encouragement of war savings, rationing of food and clothing, allocation of materials, control over the employment of labour and direct control of prices.

10. At the present time we have about 23 million men and women in the Armed Forces and in gainful employment—an increase of 4½ millions since 1939. There has been an enormous transfer of man-power to the Armed Forces, Civil Defence and the munitions industries; and, within industry, a very large change-over from civilian production and services to more direct war needs. Something like 80 per cent. of employment in the manufacturing industries is now on Government account. During the transition from war to peace these movements will be reversed. There will be both a reduction in the total man-power employed and a substantial movement from the Forces and war work to civilian production and services. The numbers involved in this change-over may be in the region of 7 millions. For many the transfer will not involve any change of employment; substantial numbers in the munitions industries will be re-employed by the

* After the last war there were a few months of dislocation and unemployment, while industries were switching over from war to peace. There then followed the brief but violent boom (which reached its peak in the summer of 1920) while stocks were being rebuilt, war arrears of maintenance made good and the accumulated demands of foreign countries satisfied. Unemployment was very low, and prices and wages soared. As soon as demand at home and abroad slackened towards the end of 1920, prices began to slump. Deflation followed inflation, with disastrous results. Wage reductions led to widespread industrial unrest. There was a startling increase in unemployment, which reached 1¾ millions in March, 1921, and rose to 2½ millions about the middle of that year, owing largely to a shortage of fuel caused by a stoppage of work in the coalmining industry. From this figure unemployment gradually fell to the neighbourhood of 1¼ millions and (apart from the coal dispute in 1926) stayed at about this level from 1923 to 1929. With the onset of the great depression at the end of 1929, unemployment mounted to over 2½ millions in just over one year and did not fall below that figure until the middle of 1933, after which we had a steady decline to under 1¼ millions in the middle of 1937.

same firm as soon as its plant can be turned over to production for civilian needs. But large numbers will have to change their present occupations and their place of employment, including not only members of the Armed Forces but many workers now employed on tasks, such as shell filling, to which there is no peace-time parallel, and those who will have to make room for the men and women returning from the Forces to their pre-war jobs.

11. Side by side with the gradual release of this great labour force there will be a vast transformation in the demand for the products of labour. Government expenditure on aircraft, warships and munitions will naturally contract, though the needs of the Armed Forces are likely to remain high for a considerable time; on the other hand, the pent-up demand for civilian goods of all kinds will be released. There will be an immense need for all the things we have had to go short of during the war.* There will be houses to be built, shops to be filled, factories to be transformed, plant and rolling-stock to be replaced and export trade to be renewed and extended.

12. If this switch of demand could be immediately matched by a corresponding switch of supply, there would be no need to fear the occurrence of unemployment in the period immediately after the war. But of course this cannot happen in practice, even though the war against Japan continues after the defeat of Germany and, as a result, there is a more gradual re-allocation of labour to civilian tasks. Of the millions of men and women who will have to find new jobs on release from the Armed Forces, Civil Defence and the munitions industries, not all can be released in the areas where the immediate demand for their labour is greatest, nor will all those who are released have the special skills to fit them for the peace-time tasks available. Moreover, for a time, shortage of key workers or of particular raw materials or types of equipment may delay the full re-employment of all the labour released. New designs have to be created and approved; factories need to be re-tooled or re-opened; semi-manufactures have to be produced before full manufacture can begin; the skilled labour which is needed for one set of processes cannot immediately be reconstituted by the release of skilled labour from others. Peace-time production, like war production, will necessarily take some time to get fully into its stride.

13. There will be inherent in the situation a threefold danger:—

(*a*) that patches of unemployment may develop where the industrial system fails to adapt itself quickly enough to peace-time production;

(*b*) that demand may outrun supply and create an inflationary rise in prices;

(*c*) that civilian production, when it is resumed, may concentrate on the wrong things from the point of view of national needs.

Government action will be directed to forestall, so far as possible, each of these dangers.

14. It would be vain to imagine that patches of unemployment can be eliminated altogether in the transition period; but they should not be so widespread or so persistent as is sometimes feared. After the last war the number of ex-Service men claiming out-of-work donation never rose substantially above 400,000, although demobilisation was proceeding at an average rate of nearly 700,000 a month in the first quarter of 1919. The total

* The present clothing ration provides roughly one-half of the pre-war consumption of clothing. Supplies of household goods have also been greatly reduced. Only about one household in ten can now buy a pair of sheets and one household in five a pair of blankets each year. Only one person in seven can now buy each year a knife, fork or spoon, one person in three a kettle, saucepan or frying pan, one person in four a teapot or jug. The manufacture of carpets, vacuum cleaners, refrigerators and other household appliances is virtually prohibited.

number of unemployed persons rose to over a million at one time in 1919, but this figure was soon reduced to a low level and remained low until the end of 1920. It is unlikely that the change from war to peace will be anything like so abrupt this time. The Government are, however, making preparations to reduce the resulting unemployment to a minimum:—

(*a*) by assisting firms to prepare to switch over their capacity to peace-time production as quickly as possible;

(*b*) by finding out in advance where the skilled labour which will gradually become available for civilian work will be most urgently required;

(*c*) by arranging, so far as war conditions permit, that labour and raw materials will be forthcoming for urgent civilian work and ensuring that the machinery of allocation devised in war-time will be adaptable to the special conditions likely to obtain after the end of the war in Europe;

(*d*) by arranging, so far as possible, that curtailments of munitions production shall take place in areas where the capacity and labour can be used for civilian products of high priority;

(*e*) by arranging that the disposal of surplus Government stocks shall not prejudice the re-establishment and development of the normal trade channels for producing and distributing similar goods;

(*f*) by regulating the disposal of Government factories in such a way as to help towards the early restoration of employment.

15. The Government are already working out plans, based on the use of the above methods, to promote the orderly expansion of peace-time industries throughout the transition period. (The priorities to be applied in the earlier stages of the period are outlined in paragraph 18 below.) These plans have been helped by experience gained in the large-scale shifts from one type of war production to another which have been carried out with success in the last two years. Their guiding principle is to secure, so far as possible, that labour and capacity no longer needed for munitions production shall be used for producing civilian goods of high priority; and that releases of premises, labour and material are co-ordinated in advance so as to reduce local or temporary unemployment to the minimum. Discussions have already been held with many of the industries concerned, in order to find out what difficulties individual industries and firms expect to meet in switching over to peace-time production and absorbing men and women released from the Services and from other war work.

16. The second danger will come when people relax from the discipline and strain of war, and look round for opportunities to spend the money they have saved and to make up for their years of self-denial. If there were then a scramble to buy, while there was still a shortage of goods, prices would rise. This would mean an inflationary boom—bringing with it the social injustice and economic disturbance which inevitably accompany inflation.

If, therefore, we are to restore civilian production and to maintain employment we must enter the post-war period with a firm determination to keep stability in the general level of prices. This cannot be secured by the Government alone; there must be continued public support for policy on the following lines:—

(*a*) Rationing and a measure of price control must be continued for some time. Increases in rations of manufactured goods, such as clothing, will be regulated to correspond with increases in production. The speed

at which food rations can be increased and varied will largely depend on the extent to which we can obtain oversea supplies.

(*b*) Price control cannot be effective unless it is accompanied by a stable general level of costs*. If all will work together to keep the level of internal costs down, it should be possible to avoid any sharp rise in the cost of living. No undertaking can be given so far in advance to peg the cost of living index to any particular figure by Government subsidies; for one important factor in our internal price level, i.e. the cost of our imports, will depend upon the future level of world prices, which cannot be forecast. But, generally, the Government, if supported by the co-operation of all sections of the public, will continue their present policy of providing subsidies to prevent temporary and considerable rises in the cost of living.

(*c*) The habit of saving must still be encouraged. Unless people are still prepared to go on putting aside some part of their earnings in savings, instead of spending it on consumption goods, labour and capacity which is needed for schemes of post-war reconstruction and social development will have to be diverted to increasing the supplies of consumption goods.

(*d*) The use of capital will have to be controlled to the extent necessary to regulate the flow and direction of investment. Heavy arrears of capital expenditure on buildings, plant and equipment have to be overtaken, and construction on new development must begin. Without control, therefore, there would be a scramble to borrow, leading to a steep rise in rates of interest. The Government are determined to avoid dear money for these urgent reconstruction needs. In this period, therefore, access to the capital market will have to be controlled in order to ensure the proper priorities.

17 It cannot be expected that the public, after years of war-time restrictions, will find these proposals altogether palatable; and the Government have no intention of maintaining war-time restrictions for restriction's sake. But they are resolved that, so long as supplies are abnormally short, the most urgent needs shall be met first. Without some of the existing controls this could not be achieved; prices would rise and the limited supplies would go, not to those whose need was the greatest, but to those able to pay the highest price. The Government are confident that the public will continue to give, for as long as is necessary, the same wholehearted support to the policy of "fair shares" that it has given in war-time.

18. The third danger is that production of unessential goods may interfere with the production of essentials. In order to direct the efforts of industry towards the right tasks in the right order, it will be necessary to establish certain broad priorities and to enforce them for a time by means of the issue of licences, the allocation of raw materials and some measure of control over the labour and staff required for industry. There are three main reasons why this must be done:—

(*a*) During the war we have obtained a large proportion of our imports first by the sale of our foreign assets and later by lend-lease or on credit. This process cannot continue indefinitely; and if we are to be able to buy the imported food and raw materials which we need to maintain our standard of life, we must expand our export trade. An export drive is thus of paramount importance, and home demand—whether for consumption goods or capital expenditure—must not be allowed to divert the resources needed for exports.

* This is discussed more fully in Chapter IV(*b*) below.

(*b*) Production for the home market must be directed in the first place towards the necessities of civilian life and, until these primary needs are met, resources which could be applied to meet them should not be diverted to the production of luxuries for home consumption.

(*c*) Production of the capital goods needed to restart and re-equip industry at the highest pitch of efficiency must be rapidly expanded.

19. It is not yet possible to forecast the length of the transition period during which the prevailing tendency will be for demand to outrun supply. The need to maintain large armed forces may prolong this period considerably; and, although the most pressing shortages may disappear and the most vexatious controls be relaxed, our main problem for a considerable time to come may be, not to avert mass unemployment, but to secure with a limited labour force an adequate production of the goods needed to improve our standard of living and to increase our exports. The immediate difficulties for our external trade will be serious. We may be struggling to restore our exports while we are still at war with Japan and liable to provide help for the liberated territories. We shall, therefore, be compelled during this period to regulate imports and to manage our exchange resources with great care.

On the other hand, the recuperative powers of modern productive technique are very strong. Under favourable external conditions, it may not be very long before production becomes adequate to meet the various calls upon it. When that happens, the first aim of employment policy—the maintenance of an adequate level of expenditure on goods and services—will no longer be realised automatically, as a by-product of the war effort or of reconstruction, but will call for the application of a policy deliberately directed to that end.

CHAPTER III

THE BALANCED DISTRIBUTION OF INDUSTRY AND LABOUR

20. Before proceeding (in Chapters IV and V) to describe the long-term policy proposed for maintaining total expenditure, it is necessary to turn aside from the main argument of the Paper to describe the measures which the Government will take to check the development of localised unemployment in particular industries and areas. Although their effect will continue for many years thereafter, these measures will begin to operate in the transition period and can therefore be described most conveniently at this point in the Paper.

21. Apart from temporary unemployment due to the seasonal and other irregularities in particular trades, patches of longer-term unemployment develop in particular industries and areas when the demand for their products is insufficient to provide work for the whole of their labour force. This is due to a temporary or a permanent decline in an industry or group of industries caused by technical change, the trend of fashion, or the growth of foreign competition.

22. Unemployment of this type was a familiar feature in this country's economic life between the wars. The industries affected were mainly export trades—such as cotton and coal—and some of the heavy industries which had been greatly expanded during the last war. Areas which were largely dependent upon depressed industries showed heavy unemployment percentages, not only in the basic industries, but in subsidiary local trades and occupations as well.

23. The suffering in these areas was enhanced by their lack of a proper industrial balance. An area may be industrially unbalanced either because it is over-dependent upon a single industry or group of industries which tend

to fluctuate together; or because it is predominantly concerned with the export trade, which is especially liable to sudden fluctuations not within the control of our internal policy; or because it contains industries which provide employment mainly for men or mainly for women; or because its industries are subject to unpredictable changes in demand. Dependence on a single industry and the subsidiary industries which grow up round it is a natural form of industrial development which has in the past enabled certain areas to reach the highest peak of temporary prosperity while circumstances were favourable. Shipbuilding and the heavy industries in the industrial belt of Scotland, coal and iron in South Wales, and cotton in Lancashire are examples. But the price to be paid for such temporary prosperity is high when the period of depression comes. A region like South Wales in the early '20s, with half its workers employed in getting coal, three-fifths of which was shipped overseas, was dangerously dependent upon foreign trade. Conversely, regions with a wide range of industrial skills, like Birmingham, have been able to see many of their old industries die away during the past half century without losing their general prosperity, because they have had the resilience to develop new activities to replace those which became obsolete.

24. The first line of attack on the problem of unemployment in these unbalanced areas must be to promote the prosperity of the basic industries on which they primarily depend, e.g. coal, steel, engineering and shipbuilding. It will be an aim of Government policy to help these industries to reach the highest possible pitch of efficiency, and secure oversea markets.

Secondly, these industries, and the areas which are largely dependent on them, will share in the benefits which will flow from the Government's policy (explained in Chapters IV and V) for maintaining domestic expenditure at a high level. But it will not be enough to rely on the general maintenance of purchasing power to solve all the problems of local unemployment. A solution on these lines alone would be too long drawn out and might involve the partial depopulation of industrial regions which are a national asset that we cannot afford to lose.

25. The Government therefore propose to attack the problems of local unemployment in three ways:—

(*a*) By so influencing the location of new enterprises as to diversify the industrial composition of areas which are particularly vulnerable to unemployment.

(*b*) By removing obstacles to the transfer of workers from one area to another, and from one occupation to another.

(*c*) By providing training facilities to fit workers from declining industries for jobs in expanding industries.

Distribution of Industry.

26. It will be an object of Government policy to secure a balanced industrial development in areas which have in the past been unduly dependent on industries specially vulnerable to unemployment. The Government will encourage the establishment of new enterprises in these " development areas " by the following means:—

(a) *Location of new factories.*—In order that the Government may be fully informed of the course of industrial development, industrialists contemplating the establishment of new* factories, or the transfer of a factory

* For the purpose of this legislation " new factory " will include extensions of existing factories, but in framing the definition the Government will seek to exclude from the restrictive provisions small establishments and small extensions of existing establishments

from one area to another, will be required to notify the Government before their plans reach an advanced stage. This will enable the Government to exercise a substantial influence over the location of new industrial development, as contemplated by the Barlow Report*. On the one hand, power will be taken to prohibit the establishment of a new factory in a district where serious disadvantage would arise from further industrial development. On the other hand, the Government will be able to use their influence to steer new factory development into areas which call most urgently for further industrial diversification. In exercising this influence account will be taken of strategic, as well as industrial and social, considerations. In this positive aspect of their policy, the Government will be prepared, in suitable cases, to offer to industrialists who are willing to establish new factories in development areas the special inducements indicated below.

(b) *Munitions Factories.*—Where practicable, factories now engaged in war production in these areas will be retained on that work if it is reasonably clear that they can be employed in the production of munitions after the war. Factories which are not likely to be required for the manufacture of munitions after the end of the war will be released as early as possible, and those owned by the Government will be leased or sold for civilian production.

(c) *New factory building.*—To the extent that existing factory buildings are insufficient to secure a proper balance of industry in the development areas, the Government will give priority to these areas in the grant of licences for the building of new factories and extensions of existing factories.

(d) *Factory Premises for Smaller Firms.*—The Government will continue and extend the policy of erecting in development areas factories on individual or collective sites, for sale or lease, including factories which can be rented in sections.

(e) *Government Contracts.*—Due regard will be paid to the needs of these areas in the placing of Government orders of all kinds.

(f) *Financial Assistance.*—The Government will take such steps as may be necessary to secure that enterprises which establish themselves in these areas in conformity with the Government's policy, and show good prospects of success on a commercial basis, shall have adequate facilities for obtaining short-term and long-term loans and, where necessary, share capital.

27. The Government will also take such action as may be necessary to secure the full development in these areas of the basic services on which industry depends and to stimulate the modernisation of their capital equipment, e.g., the improvement of communications (including docks and harbours, as well as roads and railways), the extension of power services, and the improvement of housing, other amenities and general public services. In addition, the Government will organise research with a view to discovering what types of industry would fit most naturally into the long-term economy of each of these areas.

28. The measures required to balance and diversify industry will of course vary from one area to another, and the areas in which such measures may be required from time to time cannot be foreseen. There can be no final list of "development areas." Areas which have regained their prosperity by the aid of these measures will be removed from the list, while others may have to be added to it as economic conditions change.

29. With the introduction of this new policy for securing a balanced distribution of industry, the need for the Special Areas legislation will disappear.

* Cmd. 6153, 1940. Report of the Royal Commission on the Distribution of the Industrial Population.

The Special Areas are not at present depressed, and experience during the war has shown that production there can be as efficient as in other parts of the country. Much social capital is already invested there in the form of houses, shops, public services, etc. Neither this social capital nor the corporate life of these communities can be sacrificed. There may be some small and isolated villages, especially in mining areas, which, owing to permanent changes in industrial conditions, offer no hope of sound economic revival. In these rare cases the population may have to be re-established elsewhere. There will be other larger areas where the temporary causes of special industrial prosperity have disappeared, e.g., because of the exhaustion of a wasting asset, but where the economic life of the community could be put on a sound basis if the population were reduced. In these special cases some proportion of the workers may have to be re-established elsewhere. But where a large industrial population is involved, the Government are not prepared either to compel its transfer to another area or to leave it to prolonged unemployment and demoralisation.

30. No single Department could conveniently undertake the responsibility for formulating and administering the policy for the distribution of industry outlined in the foregoing paragraphs. This is essentially a policy of the Government as a whole, and its application in practice will involve action by a number of different Departments, each of which will adapt its administration to conform with the general Government policy. The main responsibility will rest with the Board of Trade, the Ministry of Labour and National Service, the Ministry of Town and Country Planning and the Scottish Office.

Standing arrangements will be made for supervising and controlling, under the Cabinet and as part of the central Government machinery, the development and execution of the policy as a whole. At the other end of the scale, there will be a Regional organisation, which will bring together the representatives of the Departments concerned in the local application of these measures.

It is necessary, however, that there should be a single channel through which Government policy on the distribution of industry can be expressed. It would not be satisfactory if the public were left to deal with a number of different Departments on different aspects of the same problem. The Government therefore propose that the channel for the expression of Government policy in this matter shall be the Board of Trade, which will be the Department responsible for all general questions of industrial policy and will be suitably strengthened to undertake the heavier responsibilities which Government will assume in this field after the war. The President of the Board of Trade will be responsible to Parliament for all the general aspects of the policy; and, on these, enquiries and representations from interested sections of the public will be made through the Board of Trade.

Distribution of Labour.

31. In an expanding economy workers must be ready and able to move freely between one occupation and another. This is necessary in order to reduce the dislocation which arises from changes in technique and fluctuations in market conditions, and also to ensure that the expansion of new industries under the stimulus of a high level of demand is not hampered by a shortage of skilled labour. During the first year or so after the war the problems of labour mobility will centre mainly around the re-settlement of members of the Armed Forces released from service and war workers released from war work. The Government have already announced their training schemes for re-settling ex-Service men and women and released war workers. As the re-settlement of persons who have been uprooted by war service draws

to a close, the Government propose to continue training schemes on similar lines as a permanent measure, so far as this is needed to assist necessary transfers from one industry or occupation to another.

32. For jobs calling for no great amount of skill and requiring only a few weeks' instruction, employers should arrange to give the instruction in the course of employment. No matter how little skill is involved in a new job, proper instruction should be given for it and the worker should not be left to pick up the new technique as best he can. This is a need which can best be met by the development of methods of training within industry; and does not call for any financial assistance from public funds. For jobs calling for greater skill and requiring a more extended period of specialised instruction, the training should also be carried out as far as possible by employers. This type of training is best given under properly designed training schemes providing a definite course of instruction. Employers who provide such courses, approved by the appropriate Department, will receive Government grants calculated on a capitation basis to be settled after consultation with the industry concerned.

There are great advantages in providing training in the factories, where the trainees can see ahead of them the jobs which they are qualifying themselves to fill. For certain occupations, however, training can be better given in a separate school or institution than in employers' workshops. To meet the need for this kind of training, which employers cannot provide, the facilities for institutional training which are provided in the Government Training Centres, Technical Colleges, etc., will be developed and extended.

33. It will be a fundamental principle that where re-training is required it shall be provided as soon as it is clear to the Ministry of Labour that the worker is not likely to be able to resume his former employment within a reasonable time: he will not be expected to wait until he has been unemployed for a long time before becoming eligible for re-training. This will enable the Government to take steps to train the necessary labour for new and expanding trades in time to be available when the demand for its services matures. It will also prevent the training schemes from becoming discredited by being confined to persons who have been unemployed over a long period and cannot readily be placed in new employment.

34. The allowances granted to the trainees will be completely divorced from payment of unemployment benefit. The worker entering upon a course of training must be made to feel that he has left unemployment and unemployment benefit behind him and has started on a new job. Training allowances will be fixed on a higher scale than unemployment benefit, subject to the principle that they should not be so high as to provide a higher income than the general run of wages likely to be received by trainees in their first subsequent employment.

35. If retraining schemes are to be a success there must be the fullest co-operation between employers and the Trade Unions. Difficulties have arisen in the past because some sections of industry have been reluctant to admit trainees. There have been various reasons for these difficulties, including rules and practices which were devised to safeguard the security of employment of existing workers and their wage standards, and to maintain a proper standard of skill. In some cases the difficulty has been increased by competition between Unions. During this war causes of friction, including demarcation, have been greatly reduced; and the Government believe that, with the creation of conditions designed to produce full employment and stability, all parties in industry will agree that existing rules and practices

may safely be modified to allow the ready admission of trainees, provided that proper steps are taken to train them to a standard which will justify the payment of the recognised rate of wages. Care will also be taken to ensure that the number of trainees does not exceed the number capable of being absorbed in the particular trade.

36. While the Government do not rely primarily on large-scale labour transfers for a solution of the unemployment problems of particular areas, they are anxious to overcome some of the obstacles which stand in the way of the transfer of workers to places where suitable employment is available for them. Experience before the war showed that two of the most serious obstacles were the worker's difficulty in obtaining a suitable house to rent in areas where work was available, and the special costs which for a time fall upon him while he is settling down in his new environment.

Since the end of the last war, the difficulty of obtaining a house to rent has been an especially important factor. Workers who could afford and were anxious to rent houses in the areas to which they were moving found themselves unable to do so and were forced to buy houses on mortgage. Steps will be taken to secure that a substantial proportion of the new houses erected after the war shall be available at a rent which is within the means of the average wage earner.

Where workers are transferred under approved schemes to a new area, they will be eligible for resettlement allowances to meet the costs involved in their removal and that of their dependants. Special arrangements will also be made for the training and employment of juveniles.

CHAPTER IV

GENERAL CONDITIONS OF A HIGH AND STABLE LEVEL OF EMPLOYMENT

37. In the transition period, as we have seen, employment policy will be primarily concerned with the transfer of men and women to peace-time jobs. But however smoothly this transition can be made, and however rapid may be the return to normal conditions, there will still remain for treatment those long-term problems connected with the maintenance of an adequate and steady volume of employment which eluded solution before the war.

38. The chart in Appendix I shows unemployment rates for the period 1858-1938. Throughout the period there was a fairly regular cycle of unemployment—evidence of instability in our economic system. And (although the figures are not strictly comparable throughout the whole of the period) the average level of unemployment after the war of 1914-18 was, on account of the special and continuing problems of the export trades, higher than in the period before 1914.

39. If these features which have afflicted our economic life in the past are to be banished, as it is our resolve to banish them, from the future, three essential conditions must be satisfied:—

(*a*) Total expenditure on goods and services must be prevented from falling to a level where general unemployment appears.

(*b*) The level of prices and wages must be kept reasonably stable.

(*c*) There must be a sufficient mobility of workers between occupations and localities.

(a) The Maintenance of Total Expenditure

40. Assuming a given level of wages and prices, and full mobility of labour, workers will lose or fail to find employment because there is not a sufficiently large expenditure on the goods and services which they might produce. If more money is spent on goods and services, then more money will be paid out as wages and more people will be employed. Thus, the first step in a policy of maintaining general employment must be to prevent total expenditure (analysed in paragraph 43) from falling away. Once it is allowed to do so, a minor decline may rapidly gather momentum and take on the proportions of a major depression. If, for example, there is a decline in the demand for steel for the erection of new buildings, unemployment will first appear among steel workers. The steel workers, in consequence, will have less to spend on food and other consumer goods, so that the demand for consumer goods will fall. This leads to unemployment among the workers in the consumer goods industries who, in turn, find their purchasing power reduced. As a result of this general loss of purchasing power in the community, the demand for new building is still further reduced and the demand for constructional steel falls once again. The original decline in expenditure produces secondary reactions which themselves aggravate the source of the trouble. This is an over-simplified illustration, but it is sufficient to make it clear that the crucial moment for intervention is at the first onset of the depression. A corrective applied then may arrest the whole decline; once the decline has spread and gathered momentum, interventions on a much greater scale would be required—and at that stage might not be effective.

41. The Government are prepared to accept in future the responsibility for taking action at the earliest possible stage to arrest a threatened slump. This involves a new approach and a new responsibility for the State. It was at one time believed that every trade depression would automatically bring its own corrective, since prices and wages would fall, the fall in prices would bring about an increase in demand, and employment would thus be restored. Experience has shown, however, that under modern conditions this process of self-recovery, if effective at all, is likely to be extremely prolonged and to be accompanied by widespread distress, particularly in a complex industrial society like our own.

42. The methods which the Government propose to adopt to maintain total expenditure are described in Chapter V. It will, however, be convenient to analyse here the constituent parts of this total expenditure, for they differ greatly both in their susceptibility to fluctuations and in the ease with which these fluctuations can be controlled.

43. In a country which could ignore the outside world these parts would be four in number:—

(a) *Private Consumption Expenditure*
Private expenditure on food, clothing, rent, amusements, etc.

(b) *Public Expenditure on Current Services*
Expenditure by public authorities on education, medical services, national defence, etc.

(c) *Private Investment Expenditure**

Private capital expenditure on buildings, machinery and other durable equipment and on additions to goods in stock.

(d) *Public Investment Expenditure**

Capital expenditure on buildings, machinery, roads and other durable equipment by the central Government, local authorities or public utilities.

But in a community linked with the outside world some expenditure (i.e. that upon imports) does not directly lead to employment at home, while some employment at home (i.e. labour engaged in making things for export) arises out of the expenditure of people in other countries. It is convenient to allow for these facts by adding a fifth item (which may of course be a minus quantity) to the list of the constituents of total expenditure, namely:—

(e) *The Foreign Balance*

The difference between exports (visible and invisible) and imports (visible and invisible).

44. Expenditure on private consumption is perhaps the element least liable to sudden and spontaneous variation; for, so long as people's incomes do not greatly change, their habits of buying are likely to remain much the same. Public expenditure on current services, including national defence, will also be fairly constant as a rule, unless the Government decide as an act of deliberate policy to vary expenditure on some items in order to compensate for swings in other parts of total national expenditure. Public capital expenditure has in the past fluctuated considerably, largely because public authorities have often taken the view that in a period of depression, when their revenue was precarious, economy on capital expenditure was the right policy.

45. It is, however, in the two remaining components of total expenditure—private expenditure on capital equipment and the foreign balance—that spontaneous variations are likely to be greatest and at the same time most difficult to control. A business man deciding whether it is worth his while to sink more capital into his business will be influenced by a very wide range of considerations: whether his market is likely to grow or decline; what his competitors are doing; whether prices are likely to go up or down; whether the latest type of machinery is much superior to his own, and so on. It is in practice impossible to foresee with any certainty what decisions business managements will reach on these matters: the prevailing atmosphere of optimism or pessimism, particularly in periods of rapid industrial change, probably has as much influence on them as any independent analysis of the facts.

46. In the majority of highly industrialised communities it is expenditure on private investment which is the most usual and most potent cause of instability in total expenditure, and consequently in employment. But this country, because of the relative importance of its export trade, which before the war provided employment for about one and three-quarter million persons,

* Strictly speaking, *net* expenditure in both cases, i.e., after allowing for expenditure on maintenance and renewal of existing capital equipment and of goods in stock. Such expenditure, of course, also gives rise to a demand for labour, but this is already allowed for in the figure of final demand for the goods, whether capital or consumption goods, which the equipment is being used to make, and we must not count it twice. Indeed, if part of the sums currently set aside for depreciation, etc., are not actually being expended on renewals and replacements as has happened during the war, we must make a corresponding *deduction* from the expenditure on *new* equipment in order to reach the true figure of "net investment expenditure". Similarly, a deduction would have to be made for the depletion of stocks in any given period.

is also particularly subject to fluctuations in employment arising from fluctuations in international trade. In 1929, for instance, the depression in British industry was transmitted to this country from abroad. The state of our foreign balance depends very largely upon the behaviour of persons and Governments outside our jurisdiction. Our aim must therefore be to agree with other countries on international measures which will be to our mutual advantage and will render them partners with us in a common economic policy. As has been mentioned in Chapter I, the Government have already embarked on such discussions, with the object of increasing and stabilising the volume of world trade.

47. The most serious obstacles to the maintenance of total expenditure therefore lie in these highly inconvenient facts:—

First, those elements in total expenditure which are likely to fluctuate most —private investment and the foreign balance—happen also to be the elements which are most difficult to control.

Secondly, an increase in one part of total expenditure can only within limits offset a decrease in another. For if, through a decline in private investment, the construction of new factories is discontinued and building labourers are thrown out of work, it may be useful to stimulate the purchase of clothing but it would be idle to expect the building labourers to turn up the next day ready to handle sewing machines in the clothing factories. Again, if important British exports fell off sharply, it would be essential, at the earliest moment, to find alternative exports to fill the gap: an expansion of internal demand would not alone be an appropriate remedy and indeed, if it were applied too vigorously, might lead to inflation.

48. The guiding principles of the Government's policy in maintaining total expenditure will be as follows:—

(*a*) To avoid an unfavourable foreign balance, we must export much more than we did before the war.

(*b*) Everything possible must be done to limit dangerous swings in expenditure on private investment—though success in this field may be particularly difficult to achieve.

(*c*) Public investment, both in timing and in volume, must be carefully planned to offset unavoidable fluctuations in private investment.

(*d*) We must be ready to check and reverse the decline in expenditure on consumers' goods which normally follows as a secondary reaction to a falling off in private investment.

The plans which are being prepared for this purpose are described in Chapter V.

(b) The Stability of Prices and Wages

49. Action taken by the Government to maintain expenditure will be fruitless unless wages and prices are kept reasonably stable. This is of vital importance to any employment policy, and must be clearly understood by all sections of the public. If we are to operate with success a policy for maintaining a high and stable level of employment, it will be essential that employers and workers should exercise moderation in wages matters so that increased expenditure provided at the onset of a depression may go to increase the volume of employment.

50. This does not mean that every wage rate must remain fixed at a particular level. There must always be room for the adjustment of wages and conditions, e.g. on account of changes in the form, method or volume of production. Also there must be opportunity for the removal of anomalies in the rate

of remuneration of different grades and categories of workers, both within an industry and between different industries. The principle of stability does mean, however, that increases in the general level of wage rates must be related to increased productivity due to increased efficiency and effort.

51. An undue increase in prices due to causes other than increased wages might similarly frustrate action taken by the Government to maintain employment. If, for example, the manufacturers in a particular industry were in a ring for the purpose of raising prices, additional money made available by Government action for the purpose of maintaining employment might simply be absorbed in increased profit margins and no increase in employment would result.

52. Stability of wages and stability of prices are inextricably connected. If the general level of wage rates rises and there is a corresponding increase in prices of goods for civilian consumption, the individual wage-earner will be no better off and there may be no increase in the total amount of employment available.

53. Thus, the stability of these two elements is a condition vital to the success of employment policy; and that condition can be realised only by the joint efforts of the Government, employers and organised labour. The Government for their part are prepared to do what they can to stabilise prices so as to avoid or mitigate changes not rendered inevitable by higher costs either of imports or of production at home. If, however, the cost of living is thus kept stable it must be regarded as the duty of both sides of industry to consider together all possible means of preventing a rise in the costs of production or distribution and so avoiding the rise in prices which is the initial step in the inflationary process.

54. Workers must examine their trade practices and customs to ensure that they do not constitute a serious impediment to an expansionist economy and so defeat the object of a full employment programme.

Employers, too, must seek in larger output rather than higher prices the reward of enterprise and good management. There has in recent years been a growing tendency towards combines and towards agreements, both national and international, by which manufacturers have sought to control prices and output, to divide markets and to fix conditions of sale. Such agreements or combines do not necessarily operate against the public interest; but the power to do so is there. The Government will therefore seek power to inform themselves of the extent and effect of restrictive agreements, and of the activities of combines; and to take appropriate action to check practices which may bring advantages to sectional producing interests but work to the detriment of the country as a whole.

(c) The Mobility of Labour

55. Even if there is an adequate overall demand for labour, maintained by a total expenditure sufficient to provide every worker with a job, it does not follow that unemployment will altogether disappear. In an economy which aims at keeping employment at its highest level, change will always be going on; new industries will be starting up, new processes replacing old; new ways of meeting consumers' demand will be under experiment. Numbers of people will therefore be registering as unemployed at Employment Exchanges on any particular date—there will always be people who are changing from one job to another, or are unemployed for some such temporary reason. If short-term unemployment arising from such causes is to be reduced to a minimum every individual must exercise to the full his

own initiative in adapting himself to changing circumstances. The Government will assist by the measures designed to bring the men to the work and the work to the men which have been described in Chapter III. They will also seek to prevent mobility of labour being impeded by arrangements of a type sometimes made before the war whereby workers worked part-time and claimed unemployment benefit for the rest of the week.

56. It would be a disaster if the intention of the Government to maintain total expenditure were interpreted as exonerating the citizen from the duty of fending for himself and resulted in a weakening of personal enterprise. For if an expansion of total expenditure were applied to cure unemployment of a type due, not to absence of jobs, but to failure of workers to move to places and occupations where they were needed, the policy of the Government would be frustrated and a dangerous rise in prices might follow.

CHAPTER V

METHODS FOR MAINTAINING TOTAL EXPENDITURE

(a) Capital Expenditure

57. If we could stop violent fluctuations in public and private capital expenditure taken together, and could keep the foreign balance reasonably stable, we should have gone far to prevent wide variations in demand and consequently in general employment. The following paragraphs outline the measures by which the Government propose, as part of their long-term policy, to influence the volume of capital expenditure, private and public.

58. In ordinary times the volume of capital expenditure is influenced by movement in the rate of interest. If the cost of borrowing money is high, some projects which are not profitable at that rate will be held back. When it falls again, those projects will be brought forward and others will also be taken in hand.

59. For some time after the end of the war it will be necessary, as explained in paragraph 16, to maintain a policy of cheap money. Thereafter, the possibility of influencing capital expenditure by the variation of interest rates will be kept in view. The experience gained since 1931 of co-operation in this field between the Treasury and the Bank of England and the Joint Stock Banks will make it possible to operate a concerted and effective monetary policy designed to promote stable employment.

60. Monetary policy alone, however, will not be sufficient to defeat the inherent instability of capital expenditure. High interest rates are more effective in preventing excessive investment in periods of prosperity than are low interest rates in encouraging investment in periods of depression.

61. The Government therefore propose to supplement monetary policy by encouraging privately-owned enterprises to plan their own capital expenditure in conformity with a general stabilisation policy. The larger private enterprises may be willing to follow, in their own interests, the example set by the Government in the timing of public investment and to adjust their activities accordingly. For to a strong and well-established business, confident of its long-run earning powers, there are obvious attractions in executing plans for expansion or for the replacement of obsolete plant at times when costs are low. And a wider understanding of the social importance of the aims of employment policy should inform and reinforce the interest which business men as a whole undoubtedly have in evening out fluctuations in capital

expenditure. A further inducement would be provided if it were found practicable to adopt a device similar to that of the deferred tax credits mentioned in paragraph 72 below and calculated to stimulate capital expenditure at the onset of a depression. This and other possible methods of influencing the volume of private investment will continue to be studied as knowledge and experience of the new technique for maintaining total expenditure are accumulated.

62. Public investment can, however, be used more directly as an instrument of employment policy.

Only a small proportion of public capital expenditure is undertaken by the central Government, by far the greater part being within the province of local authorities and public utility undertakings. In the past, capital expenditure by these authorities has generally followed the same trend as private capital expenditure—it has fallen in times of slump and risen in times of boom, and has tended therefore to accentuate the peaks and depressions of the trade cycle. In the future, Government policy will be directed to correcting this sympathetic movement. It should be possible for the Government to maintain the stability of public investment when private investment is beginning to fall off at the onset of a depression. But this may not be enough: for the purpose of maintaining general employment it is desirable that public investment should actually expand when private investment is declining and should contract in periods of boom. There are, however, practical limits to the extent to which Government action can produce swings in public investment to offset such swings in private investment as it cannot prevent. Thus, a large part of the capital expenditure of public authorities —for example on housing, schools and hospitals—is dictated by urgent public needs, the satisfaction of which cannot readily be postponed to serve the purposes of employment policy. And, in the other direction, the Government could not compel substantial acceleration of the capital programmes of these public authorities without much more power of direction that they now possess. There are, therefore, limits to the policy; but, within those limits the Government believe that they can influence public capital expenditure to an extent which will be of material value for the purpose of maintaining employment.

63. The procedure which the Government have in mind is as follows. All local authorities will submit annually to the appropriate Department their programme of capital expenditure for the next five years. For the first of those years, at least, the plans will have been worked out in all details and will be ready for immediate operation; for the later years they will naturally be increasingly tentative and provisional. These programmes will then be assembled by an appropriate co-ordinating body under Ministers and will be adjusted, upward or downward, in the light of the latest information on the prospective employment situation. If this entails a slowing down of programmes, adequate powers, through the withholding of loan sanctions or grants, are ready to hand. If it entails an acceleration, the Government will, by granting loan sanctions or otherwise facilitating finance, bring forward projects which otherwise might have had to wait for a later opportunity.

The Government are considering the lines on which this procedure can be applied to the programming of capital expenditure by public utility companies.

The machinery envisaged in this paragraph will enable the Government to set each year a target for the whole volume of public works in the succeeding year.

64. In order that public investment may be more quickly mobilized to redress the balance of private investment the Government also intend to seek means of reducing the time-lag which ordinarily intervenes between a decision to undertake public capital expenditure and the actual start of the work. Speed here is crucial, for if a decline in demand can be caught quickly enough and corrected, a comparatively modest amount of compensating expenditure will be sufficient to restore the balance.

The Government therefore propose that the existing arrangements between themselves and other public authorities should be reviewed, in consultation with those authorities, in order that any causes of unnecessary delay in varying the level of this expenditure may be removed. There may also be other retarding influences, e.g., in Parliamentary Private Bill procedure, which are capable of improvement.

65. Finally, forward planning may have to be carried down to the industries which supply the primary needs of public investment. Much time would be saved if, in those capital industries which are most subject to fluctuations and are the first to be affected by an increase in public investment, attention had been given beforehand to the quickest ways of switching production from the types of article needed for private investment to the types required for those forms of public investment which stand highest in priority on the reserve list of public works.

66. The Government believe that in the past the power of public expenditure, skilfully applied, to check the onset of a depression has been underestimated. The whole notion of pressing forward quickly with public expenditure when incomes were falling and the outlook was dark has, naturally enough, encountered strong resistance from persons who are accustomed, with good reason, to conduct their private affairs according to the very opposite principle. Such resistance can, however, be overcome if public opinion is brought to the view that periods of trade recession provide an opportunity to improve the permanent equipment of society by the provision of better housing, public buildings, means of communication, power and water supplies, etc.

(b) Consumption Expenditure

67. If, despite our efforts, there are still swings in capital expenditure, with consequent fluctuations in the expenditure of people engaged in the industries producing capital goods, such as the iron and steel industry, the incomes of persons engaged in making clothing, wireless sets and other goods for consumption will also be lowered. These persons in turn will reduce their rate of consumption of food and other goods and thus the influence of the original swing in investment will be rapidly transmitted throughout the whole range of industries.

68. We must create another line of defence against this progressive degeneration of the state of trade by putting ourselves in a position to influence the community's expenditure on consumption. Here again, speed will be essential. The ideal to be aimed at is some corrective influence which would come into play automatically—on the analogy of a thermostatic control—in accordance with rules determined in advance and well understood by the public.

For this purpose the Government, after examining a number of methods, favour the adoption, when settled conditions return, of a scheme for varying, in sympathy with the state of employment, the weekly contribution to be

paid by employers and employed under the proposed new system of social insurance. The standard rate of contribution would be assessed on the basis of a forecast of the average level of unemployment, in such a way as to keep the social insurance fund in balance over a number of years. But the rate of contribution actually levied would exceed the standard rate at times when unemployment fell below the estimated average level and would be less than the standard rate at times when unemployment exceeded this average. An outline for a scheme of this kind is set out, by way of illustration, in Appendix II.

69. The effect of this scheme would be that, above a certain level of unemployment, a rise of two points in the unemployment percentage would decrease by an average of £500,000 a week the total of the social insurance contributions paid by workers in employment—apart from the corresponding reduction in the costs of employers. This would substantially augment the purchasing power in the hands of employed workers; and the additional money thus left in the hands of many millions of people would help to maintain demand for consumers' goods, thereby offsetting, at least in part, the decline in the expenditure of those who had lost their employment. This maintenance of purchasing power would reduce substantially the variations in total expenditure and employment.

70. A plan of this kind is in no way inconsistent with the contributory basis of the social insurance scheme. It is still intended that over a period of years the contributions to the fund, supplemented by State assistance on the agreed scale, should balance its outgoings, and that the standard rates of contributions should be altered from time to time if necessary to secure this result.

71. A scheme for varying social insurance contributions would be an inappropriate remedy for the type of unemployment which is likely to arise in the transition period. Moreover, there would be serious risk of confusion if such a scheme were brought into operation too soon after the introduction of the new system of social insurance. The introduction of that system will itself present a formidable problem of administration for the State, and contributors also will need time to adjust themselves to the new conditions. On both grounds it would be preferable that there should be an interval for the new system to establish itself before this additional complication is introduced. While, therefore, the plan and any necessary qualifications of it will be drawn up in detail, it will not be put into operation until the abnormal conditions of the immediate post-war years have disappeared.

72. The Government have also examined a number of other devices for influencing the volume of consumption, such as the variation of rates of taxation and the incorporation of some system of deferred credits as a permanent feature of national taxation. Since after the war a very considerable proportion of the national income will have to be taken in taxes, it is clear that relatively small variations in rates of taxation, whether effected by deferred credits or otherwise, will have a significant effect on the purchasing power available to the public and so on employment. Deferred credits are preferable to any system of direct variation which, apart from its other disadvantages, would come into operation more slowly than an effective policy demands. If experience should show that the variation of social insurance contributions was of value in keeping employment steady at a high level, but that another instrument for operating upon the volume of consumption was also desirable, it might well become a matter for consideration whether in prosperous times

rather more taxation should be raised than was necessary for the Budget requirements of the year and that excess treated as a credit repayable to the taxpayers in bad times.

73. These measures would operate by increasing the purchasing power in the hands of consumers. There is also the possibility, to which reference has already been made in paragraph 44 above, that the Government might directly sustain employment in consumer goods industries by placing orders at a time when the normal demand for their products was flagging.

The Government are large purchasers of certain types of consumer goods, e.g. boots, clothing and furniture; and they could within limits vary the volume of these orders according to the general state of trade. Local authorities could also be invited to aim at a similar variation in their orders for stores of this kind. If all public authorities adopted a policy of buying for stock when employment was flagging and allowing their stocks to run down when trade was brisk, they would make some contribution towards the stability of employment in those industries.

It might be suggested that the Government should go further and should place orders for consumer goods which are not required for Government use with a view to meeting a temporary deficiency in demand. This would, however, involve the purchase of goods by the Government for subsequent re-sale to the public, and there would be a risk that Government stocks overhanging the market would create uncertainty and cause traders to reduce or postpone their orders for these goods. It is possible that for certain classes of goods Government orders could be placed without risk of these consequences; and it is proposed to continue the study of this problem. Further examination is also being made of other methods for influencing the volume of employment in the consumer goods industries, including the possibility of regulating hire purchase transactions according to the state of trade.

(c) Central Finance.

74. None of the main proposals contained in this Paper involves deliberate planning for a deficit in the National Budget in years of sub-normal trade activity. A policy of low interest rates is helpful rather than otherwise to the Budget. Any action which can be taken to improve our foreign balance works in the same direction. The designed variations in the capital position of the social insurance fund will not affect the Revenue Budget. Financial inducements to public authorities to expand capital expenditure will mainly take the form of an annual grant towards meeting recurrent charges on the loans raised and their burden will conseqently be spread over a long period. Moreover, the success of measures designed to stabilise the national income and prevent cyclical depressions will have the effect of ironing out Budget deficits which are normally associated with severe depression.

75. Much of the public capital expenditure by public authorities which has been described is likely to be remunerative in the commercial sense and will amortise itself. There will be other public capital expenditure—e.g. on roads, schools, parks, etc.—which provides no assets yielding income; but in modern communities borrowing for services of this kind is, within certain limits, regarded as normal practice. If the finances of local authorities are prudently administered, and a proper relation is kept between the growth of capital expenditure and the buoyancy of rate income, it is unlikely that the growth of their indebtedness would involve an intolerable burden on local rates. If, however, the additional capital expenditure which local authorities are asked to undertake for reasons of employment policy would involve such a burden,

the Government would contemplate giving further financial assistance to them.

76. Nevertheless, the general growth of public indebtedness needs to be watched from a central standpoint. As a result of two wars within one generation the national debt is now extremely large—both absolutely and in relation to the national income. Whatever problems may arise from the growth of productive or semi-productive debt, they will be mitigated if we can move as soon as possible into a state of affairs in which an effective reduction can be made from year to year in that part of the public debt which is a dead-weight war debt. We start with a handicap. In the transition period, when demand will be buoyant, the Government would normally expect to budget for a surplus in order to prepare for the lean years. But during this period that aim is not likely to be achieved. On the one hand Government expenditure will still be very high on defence and on reconstruction projects which cannot be delayed; and on the other hand there will be a pressing need to reduce the present very high level of taxation in order to encourage industrial re-equipment. It is inevitable therefore that we should emerge from the transition period with some increase in our public indebtedness.

77. The policy of steadily decreasing the dead-weight debt, while other forms of debt are increasing, does not mean a rigid policy of balancing the Budget each year regardless of the state of trade. Such a policy is not required by statute nor is it part of our tradition. There is nothing to prevent the Chancellor of the Exchequer in future, as in the past, from taking into account the requirements of trade and employment in framing his annual Budget. At the same time, to the extent that the policies proposed in this Paper affect the balancing of the Budget in a particular year, they certainly do not contemplate any departure from the principle that the Budget must be balanced over a longer period.

78. Not only the national dead-weight debt in the narrow sense, but other public indebtedness which involves directly or indirectly a charge on the Exchequer or on the rates, reacts on the financial system. Interest and other charges thus falling on the Exchequer are often regarded as in the nature of a transfer income in the hands of the recipients and as imposing no real burden on the community as a whole. But the matter does not present itself in that light to the taxpayer, on whose individual effort and enterprise high taxation acts as a drag. At the same time, proper limits on public borrowing also depend on the magnitude of the debt charge in relation to the rate of growth of the national income. In a country in which money income is increasing, the total debt can be allowed to increase by quite appreciable amounts without increasing the proportionate burden of the interest on that debt. Owing to the prolonged decline in the birth rate and the present age distribution of the population we can no longer rely, as in the past, on an increase in the national income resulting solely from an increase in the number of income-earning persons. It is also possible, though not certain, that we may find that we receive a smaller volume of goods from abroad in exchange for a given quantity of our exports. On the other hand, these difficulties would be more than offset by continued progress in technical efficiency, which is the dominating factor in the growth of real national income. If British industry carries into the peace the inventive power, technical skill and adaptability which it has shown during the war, we shall be able in due time to carry our burdens without a sense of excessive strain.

79. Both at home and abroad the handling of our monetary problems is regarded as a test of the general firmness of the policy of the Government.

An undue growth of national indebtedness will have a quick result on confidence. But no less serious would be a budgetary deficit arising from a fall of revenue due to depressed industrial and commercial conditions. Therefore, in controlling the situation, especially in the difficult years after the war, the Government will have equally in mind the need to maintain the national income, and the need for a policy of budgetary equilibrium such as will maintain the confidence in the future which is necessary for a healthy and enterprising industry.

CHAPTER VI

THE POLICY IN PRACTICE

80. In submitting proposals for an extension of State control over the volume of employment, the Government recognise that they are entering a field where theory can be applied to practical issues with confidence and certainty only as experience accumulates and experiment extends over untried ground. Not long ago, the ideas embodied in the present proposals were unfamiliar to the general public and the subject of controversy among economists. To-day, the conception of an expansionist economy and the broad principles governing its growth are widely accepted by men of affairs as well as by technical experts in all the great industrial countries. But the whole of the measures here proposed have never yet been systematically applied as part of the official economic policy of any Government. In these matters we shall be pioneers. We must determine, therefore, to learn from experience; to invent and improve the instruments of our new policy as we move forward to its goal. And it would be no less foolish to ignore, than to be dismayed by, the certainty that unsuspected obstacles will emerge in practice.

81. The Government intend to establish on a permanent basis a small central staff qualified to measure and analyse economic trends and submit appreciations of them to the Ministers concerned. Particularly during the crucial early years of the scheme the responsibilities of this central staff will be very heavy; for many of the decisions required to carry out the Government's employment policy will depend on quick and accurate diagnosis. A slump may develop with fearful rapidity: in 1920-21 unemployment rose from 5 to 15 per cent. in four months. Again, it is essential that we should not mistake the disease and so apply the wrong remedy. If, for example, we were to try to cure by means of stimulating total expenditure an outbreak of unemployment which was really due to a temporary maldistribution of the labour force, we might create a dangerous inflation. Similarly, isolated or incidental trade recessions will have to be distinguished from those which herald the onset of general unemployment. Questions of timing will be equally delicate: it is no easy matter to judge when a period of growing prosperity has reached its climax, is in process of turning into an inflation and requires corrective action.

82. The success of the Government's policy will thus depend on the skill which is shown in putting general ideas into day-to-day practice. It is therefore vital for them to obtain, more fully and much more quickly than they have in the past, exact quantitative information about current economic movements. Without this, informed control would be impossible and the central staff which it is proposed to set up would be left to grope and flounder in uncertainty. The Government appeal with confidence to industry to join with them in a task which is essentially co-operative; for only industry can provide

the statistical information required and only a central authority can classify and analyse information drawn from the country as a whole. Just as the central organisation of a successful business must be in a position to know what is happening to each of its various branches, so the State cannot make its plans without knowledge of what is happening throughout the whole range of industry and commerce. Information provided for this purpose will of course be treated as confidential; and figures will not be published in a form which would prejudice the position of any individual firm.

83. The following are the principal classes of statistics (in addition to those available before the war) which must be obtained for the efficient operation of an employment policy:—

(*a*) Statistics of employment and unemployment, including quarterly or monthly statements of present and prospective employment in the main industries and areas in the country, based on returns from employers.

(*b*) Regular information relating to savings, projected capital expenditure by public authorities, and, as far as possible, by private industry.

(*c*) An annual census of production showing the structure of the main groups of industries in the preceding year, including, *inter alia*, details of the quantity and value of output, stocks, and work in progress.

(*d*) Monthly figures of production, consumption and stocks, and, if possible, figures of orders on hand, based on sample returns obtained periodically throughout the year from large firms, trade associations, and public institutions.

(*e*) Annual and quarterly estimates of foreign capital movements and balance of foreign payments.

84. It is also proposed to develop the annual White Paper on National Income and Expenditure by providing a much more complete analysis than has hitherto been possible of the constituent parts of the country's total expenditure. In particular, direct estimates will be made of the various types of capital expenditure and the various sources of savings. This will be, in effect, the Capital Budget of the nation's wealth.

85. This central analysis of our financial position, which will be subject to continuous review and adjustment throughout the year, will serve as a basis for determining what measures are required to maintain employment and secure a rising standard of living. It will be essential, therefore, that at every stage there should also be parallel studies of the manpower position. These will be undertaken by the Ministry of Labour and National Service who, in the light of the knowledge and experience which they have acquired during the war, will be specially well-equipped to keep the employment situation throughout the country under constant review and to direct attention to the employment aspects of national policy. The surveys prepared by the Ministry of Labour will indicate the probable supply of labour over the coming period, the prospective changes in employment in the different industries, and the effects upon employment of Government projects designed to modify the volume of investment or expenditure. The correlation of these complementary budgets—for total expenditure and for manpower—will thus play a vital part in the formulation of Government policy for the maintenance of employment.

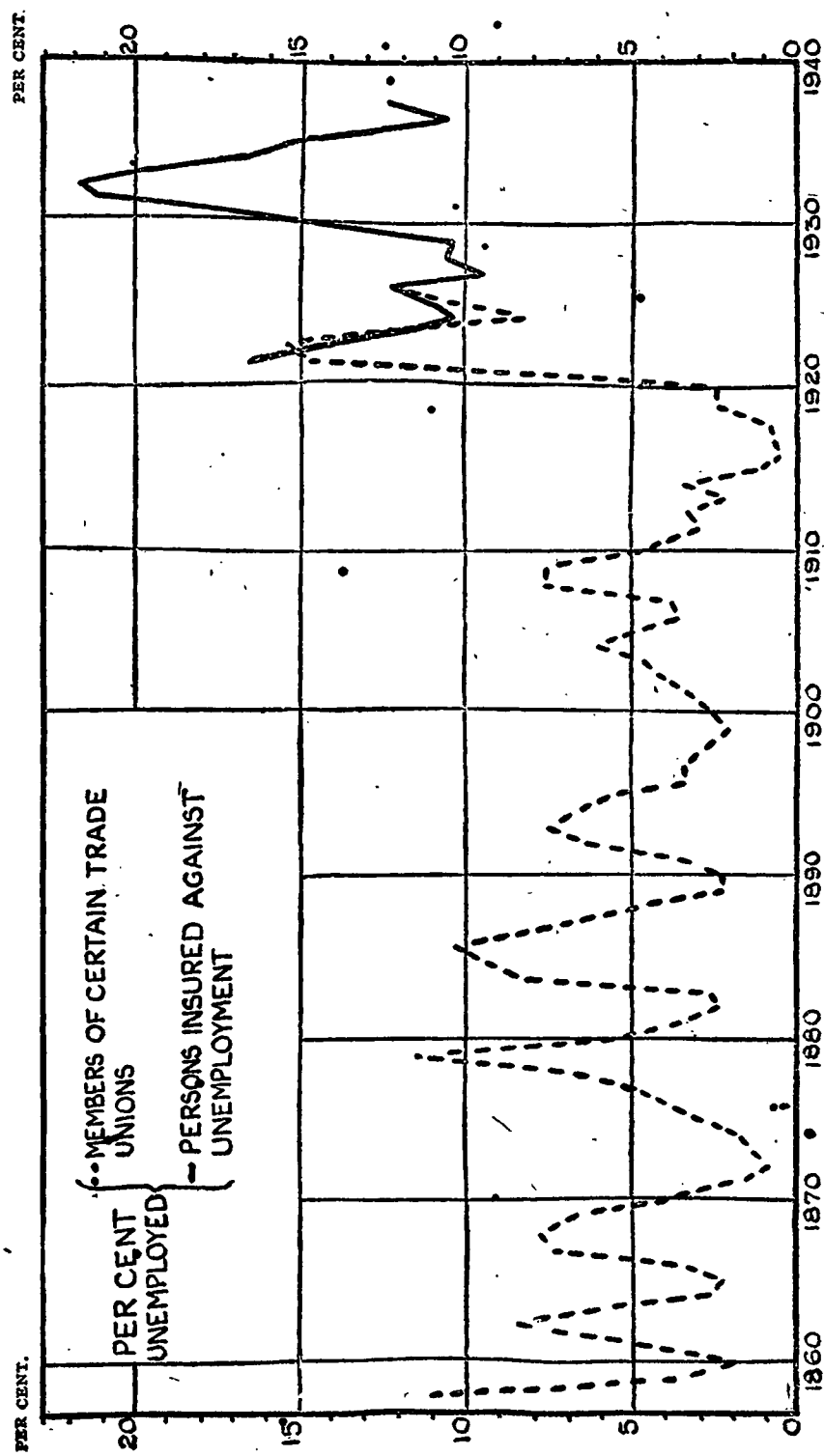
86. The Debates on the Budget will in future provide an annual opportunity for Parliament to review the financial and economic health of the country as a whole, and to consider the prospects for the coming year. Parliament will thus be asked to join with the Government in framing and approving

the general strategy for maintaining employment. If, however, the policy set forth in this Paper is to be successful, the Government of the day must be able to take the tactical decisions for which it calls—and to take them quickly. Measures to increase total expenditure at the onset of a depression may well be welcome; but the restraining measures appropriate to a boom may meet with opposition unless they are seen and understood as part of a continuing policy for maintaining employment, and accepted as the price that must be paid for the success of that policy over the long period. If action is to be taken quickly enough to have its full effect, the Government of the day must be able to rely on the support and co-operation of the public in applying the principles of an agreed national policy.

87. The Government believe that, once the war has been won, we can make a fresh approach, with better chances of success than ever before, to the task of maintaining a high and stable level of employment without sacrificing the essential liberties of a free society. They have set out in this Paper the lines on which they believe that task can most hopefully be attacked. In framing these proposals the Government have had in mind the more general aim of securing for the nation the most effective use both of its man-power and of its material resources. That aim can be achieved only if the whole productive power of the nation is employed efficiently: it is not enough that it should be employed. The Government therefore seek to achieve both work for all and a progressive increase in the economic efficiency of the nation, as joint elements in a growing national power to produce, to earn, and to enjoy the fruits of increased well-being.

APPENDIX I.

UNEMPLOYMENT IN GREAT BRITAIN: 1858—1938.



Note.—Before 1921 the most satisfactory index of the general level of unemployment was provided by the statistics covering the members of a large group of Trade Unions. These statistics are not available beyond the year 1926. From 1921 onwards the statistics of the numbers unemployed among persons insured against unemployment constitute a much more complete and reliable index of general unemployment. The numbers of unemployed have of course been affected from time to time by administrative and legislative changes in the unemployment insurance schemes.

APPENDIX II.

VARIATION OF SOCIAL INSURANCE CONTRIBUTIONS.

1. In paragraph 68 of the Paper reference is made to a scheme for varying social insurance contributions as a means of influencing expenditure on consumption. The primary object of such a scheme is to prevent an initial decline in demand from producing secondary effects on consumption and thus intensifying the depression. In a time of expanding demand the scheme would operate in the contrary direction. It is thus intended to have a stabilizing effect on employment.

2. It is desirable that the scheme, when once it has been introduced, should operate as automatically as possible. It would not be expedient to put it into operation in the unsettled economic conditions which are likely to prevail in the period immediately after the end of the war, when inflationary tendencies will be at work. Even after the end of that period there may be circumstances in which this remedy would be less appropriate and effective, e.g. if there were serious unemployment confined to particular industries but not accompanied by a significant general fall in employment throughout the country. Nevertheless, after the end of the transition period, a sliding scale scheme, though subject to possible suspension on occasion, could be essentially automatic in character.

3. There are several ways of constructing a scheme of this kind. The following outline of a possible scheme is given merely by way of arithmetical illustration: the figures used are not based on any estimate of the actual conditions which may be experienced in practice.

(i) The scheme would apply to the social insurance contributions of all employed persons.

(ii) The stamp to be affixed by the employer to each employee's social insurance card would vary automatically according to the state of unemployment.

(iii) The scale laid down would be based on a forecast of the average level of unemployment from time to time taken as the basis of the finance of the insurance scheme. If, for example, an average level of 8 per cent. unemployment was assumed, one possible scale for adult male workers (using for purpose of illustration the rates proposed by Sir William Beveridge in his Report on Social Insurance and Allied Services (Cmd. 6404, 1942) might be:—

Unemployment percentage	*Weekly Social Insurance Stamp*		
	Worker	*Employer*	*Joint*
	s. d.	s. d.	s. d.
Less than 5 per cent.	5 6	4 6	10 0
Between 5 and 7 per cent.	5 0	4 0	9 0
Between 7 and 9 per cent.	4 3	3 3	7 6
Between 9 and 11 per cent.	3 6	2 6	6 0
More than 11 per cent.	3 0	2 0	5 0

4. The scheme would bring about a substantial increase in purchasing power. The effect may be illustrated from the foregoing figures. Should it occur that in a period of difficulty average unemployment changed by four points from 8 per cent. to 12 per cent., nearly 10 million adult male workers would have their incomes increased by 1s. 3d. per week and employers would have their prime costs reduced by 1s. 3d. per week for each adult male in their employ. Assuming comparable changes in the contributions of adult female workers and non-adults, this rise of four points in the unemployment percentage would result in an immediate increase of nearly £1 million a week in the incomes of the workers, and a corresponding reduction in the costs of their employers.

5. This injection into the general system of money at the rate of some £100 millions in a year may be estimated, after analysis of many considerations affecting it (including its secondary effects and a necessary allowance for the part which is withheld from expenditure, the part which is paid in taxation and the part which is spent on imports), to produce a very material increase in the expenditure on home produce for personal consumption, rising after an interval to a figure in the region of at least £70-80 millions. This does not take into account any favourable reactions on capital expenditure. At the level of unemployment of 12 per cent. used in the above illustration, the scheme might reduce the fall in aggregate demand by about one quarter, and

in consumption expenditure by a substantially larger fraction, compared with what it would otherwise have been.

6. There are, however, difficulties attaching even in the long term to the automatic use of the scheme. For during periods of high unemployment the Fund would be receiving less than it was paying out, and the reverse would be true in times of low unemployment. If, therefore, the average around which the variations took place proved to have been a correct forecast, deficits in some years would be balanced by surpluses in other years. If, however, the average were wrongly forecast, it would be necessary, at some stage, to adjust the scale in order to make the Fund balance over a reasonable period of good and bad years.

This raises a difficulty which is to some extent inherent in any social insurance scheme which includes unemployment insurance. If the estimate of the average percentage of unemployment assumed for the purpose of balancing the Fund proved in experience to have been too low, it would be necessary, apart from the sliding scale, to raise the standard rates of contribution in order to prevent the Fund from running into a continuing deficit. It might prove that the solvency of the Fund required the change to be made at a time when conditions were depressed. In these circumstances the sliding scale would be an added disadvantage; for not only would the standard rate of contribution be raised, but the basic figure of unemployment would also be raised, beyond which increases of unemployment would justify some lesser contribution than the standard rate. Thus there would be two factors operating simultaneously, each of which would call for an increase in the rate of contributions.

7. A variable contribution also increases the possibility of error in forecasting the future finances of the Social Insurance Fund. Under the fixed contribution method, if 8 per cent. (to take the same illustration as before) was the forecasted percentage of unemployment on which the Fund was balanced, and in actual practice unemployment averaged 9 per cent., the effect would be an average deficit of £17 millions a year over the period. The introduction of the sliding scale would probably result, on reasonable assumptions as to the dispersion of unemployment about the realised average, in an additional deficit of £15 millions a year.

8. The illustrative figures given in this Appendix do not take into account the effect of this scheme and the other measures described in the Paper in lowering the average percentage of unemployment. Although under this scheme the contribution income of the general Social Insurance Fund would be reduced in times of heavy unemployment, the increase of expenditure on unemployment benefit which is experienced at such times would be diminished to the extent that the policy as a whole (including this scheme) succeeded in checking the spread of unemployment.

LONDON

PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE

To be purchased directly from H.M. STATIONERY OFFICE at the following addresses:
York House, Kingsway, London, W.C.2; 13a Castle Street, Edinburgh 2;
39-41 King Street, Manchester 2; 1 St. Andrew's Crescent, Cardiff;
80 Chichester Street, Belfast;
or through any bookseller

1944

PROPOSALS FOR AN INTERNATIONAL CLEARING UNION

Presented by the Chancellor of the Exchequer to Parliament by Command of His Majesty
April 1943

CX·P·26.

LONDON
PRINTED AND PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE
To be purchased directly from H.M. STATIONERY OFFICE at the following addresses:
York House, Kingsway, London, W.C.2; 13a Castle Street, Edinburgh 2;
39-41 King Street, Manchester 2; 1 St. Andrew's Crescent, Cardiff;
80 Chichester Street, Belfast;
or through any bookseller

1943
(Reprinted 1944)
Price 4*d*. net

Cmd. 6437

108890

In Parliament on the 2nd February, the Chancellor of the Exchequer mentioned the need, after the war, of " an international monetary mechanism which will serve the requirements of international trade and avoid any need for unilateral action in competitive exchange depreciation . . . a system in which blocked balances and bilateral clearances would be unnecessary . . . an orderly and agreed method of determining the value of national currency units . . . We want to free the international monetary system from those arbitrary, unpredictable and undesirable influences which have operated in the past as the result of large scale speculative movements of short term capital."

On the directions of the Government this problem has been under close examination by the Treasury, in consultation with other Departments. The attached paper has been prepared and the Government has decided that it should be published as a preliminary contribution to the solution of one of the problems of international economic co-operation after the war.

The Government is not committed to the principles or details of the scheme. Any proposals for a satisfactory international monetary mechanism after the war can only be framed after full consideration of all aspects of a very difficult problem. It is hoped that these proposals will afford a basis for discussion, criticism and constructive amendment, together with similar plans having similar objectives which may be prepared by experts of other Governments.

On these terms it has been presented for technical examination by experts of the United States Government. On these terms also it has been discussed in an informal and exploratory manner with officials of the Governments of the Dominions and India; these discussions were on the expert plane and did not commit the Governments concerned in any way. It has also been discussed with representatives of the European Allies and has been communicated to the representatives of the other United Nations.

PROPOSALS FOR AN INTERNATIONAL CLEARING UNION

PREFACE.

Immediately after the war all countries who have been engaged will be concerned with the pressure of relief and urgent reconstruction. The transition out of this into the normal world of the future cannot be wisely effected unless we know into what we are moving. It is therefore not too soon to consider what is to come after. In the field of national activity occupied by production, trade and finance, both the nature of the problem and the experience of the period between the wars suggest four main lines of approach:

1. The mechanism of currency and exchange;

2. The framework of a commercial policy regulating the conditions for the exchange of goods, tariffs, preferences, subsidies, import regulations and the like;

3. The orderly conduct of production, distribution and price of primary products so as to protect both producers and consumers from the loss and risk for which the extravagant fluctuations of market conditions have been responsible in recent times:

4. Investment aid, both medium and long term, for the countries whose economic development needs assistance from outside.

If the principles of these measures and the form of the institutions to give effect to them can be settled in advance, in order that they may be in operation when the need arises, it is possible that taken together they may help the world to control the ebb and flow of the tides of economic activity which have, in the past, destroyed security of livelihood and endangered international peace.

All these matters will need to be handled in due course. The proposal that follows relates only to the mechanism of currency and exchange in international trading. It appears on the whole convenient to give it priority, because some general conclusions have to be reached under this head before much progress can be made with the other topics.

In preparing these proposals care has been taken to regard certain conditions, which the groundwork of an international economic system to be set up after the war should satisfy, if it is to prove durable:

(i) There should be the least possible interference with internal national policies, and the plan should not wander from the international *terrain*. Since such policies may have important repercussions on international relations, they cannot be left out of account. Nevertheless in the realm of internal policy the authority of the Governing Board of the proposed Institution should be limited to recommendations, or at the most to imposing conditions for the more extended enjoyment of the facilities which the Institution offers.

(ii) The technique of the plan must be capable of application, irrespective of the type and principle of government and economic policy existing in the prospective member States.

(iii) The management of the Institution must be genuinely international without preponderant power of veto or enforcement to any country or group; and the rights and privileges of the smaller countries must be safeguarded.

(iv) Some qualification of the right to act at pleasure is required by any agreement or treaty between nations. But in order that such arrangements may be fully voluntary so long as they last and terminable when

they have become irksome, provision must be made for voiding the obligation at due notice. If many member States were to take advantage of this, the plan would have broken down. But if they are free to escape from its provisions if necessary they may be the more willing to go on accepting them.

(v) The plan must operate not only to the general advantage but also to the individual advantage of each of the participants, and must not require a special economic or financial sacrifice from certain countries. No participant must be asked to do or offer anything which is not to his own true long-term interest.

It must be emphasised that it is not for the Clearing Union to assume the burden of long term lending which is the proper task of some other institution. It is also necessary for it to have means of restraining improvident borrowers. But the Clearing Union must also seek to discourage creditor countries from leaving unused large liquid balances which ought to be devoted to some positive purpose. For excessive credit balances necessarily create excessive debit balances for some other party. In recognising that the creditor as well as the debtor may be responsible for a want of balance, the proposed institution would be breaking new ground.

I.—THE OBJECTS OF THE PLAN.

About the primary objects of an improved system of International Currency there is, to-day, a wide measure of agreement:—

(*a*) We need an instrument of international currency having general acceptability between nations, so that blocked balances and bilateral clearings are unnecessary; that is to say, an instrument of currency used by each nation in its transactions with other nations, operating through whatever national organ, such as a Treasury or a Central Bank, is most appropriate, private individuals, businesses and banks other than Central Banks, each continuing to use their own national currency as heretofore.

(*b*) We need an orderly and agreed method of determining the relative exchange values of national currency units, so that unilateral action and competitive exchange depreciations are prevented.

(*c*) We need a *quantum* of international currency, which is neither determined in an unpredictable and irrelevant manner as, for example, by the technical progress of the gold industry, nor subject to large variations depending on the gold reserve policies of individual countries; but is governed by the actual current requirements of world commerce, and is also capable of deliberate expansion and contraction to offset deflationary and inflationary tendencies in effective world demand.

(*d*) We need a system possessed of an internal stabilising mechanism, by which pressure is exercised on any country whose balance of payments with the rest of the world is departing from equilibrium *in either direction*, so as to prevent movements which must create for its neighbours an equal but opposite want of balance.

(*e*) We need an agreed plan for starting off every country after the war with a stock of reserves appropriate to its importance in world commerce, so that without due anxiety it can set its house in order during the transitional period to full peace-time conditions.

(*f*) We need a central institution, of a purely technical and non-political character, to aid and support other international institutions concerned with the planning and regulation of the world's economic life.

(*g*) More generally, we need a means of reassurance to a troubled world, by which any country whose own affairs are conducted with due prudence is relieved of anxiety for causes which are not of its own making, concerning its ability to meets its international liabilities; and which will, therefore, make unnecessary those methods of restriction and discrimination which countries have adopted hitherto, not on their merits, but as measures of self-protection from disruptive outside forces.

2. There is also a growing measure of agreement about the general character of any solution of the problem likely to be successful. The particular proposals set forth below lay no claim to originality. They are an attempt to reduce to practical shape certain general ideas belonging to the contemporary climate of economic opinion, which have been given publicity in recent months by writers of several different nationalities. It is difficult to see how any plan can be successful which does not use these general ideas, which are born of the spirit of the age. The actual details put forward below are offered, with no

dogmatic intention, as the basis of discussion for criticism and improvement. For we cannot make progress without embodying the general underlying idea in a frame of actual working, which will bring out the practical and political difficulties to be faced and met if the breath of life is to inform it.

3. In one respect this particular plan will be found to be more ambitious and yet, at the same time, perhaps more workable than some of the variant versions of the same basic idea, in that it is fully international, being based on one general agreement and not on a multiplicity of bilateral arrangements. Doubtless proposals might be made by which bilateral arrangements could be fitted together so as to obtain some of the advantages of a multilateral scheme. But there will be many difficulties attendant on such adjustments. It may be doubted whether a comprehensive scheme will ever in fact be worked out, unless it can come into existence through a single act of creation made possible by the unity of purpose and energy of hope for better things to come, springing from the victory of the United Nations, when they have attained it, over immediate evil. That these proposals are ambitious is claimed, therefore to be not a drawback but an advantage.

4. The proposal is to establish a Currency Union, here designated an *International Clearing Union,* based on international bank-money, called (let us say) *bancor,* fixed (but not unalterably) in terms of gold and accepted as the equivalent of gold by the British Commonwealth and the United States and all the other members of the Union for the purpose of settling international balances. The Central Banks of all member States (and also of non-members) would keep accounts with the International Clearing Union through which they would be entitled to settle their exchange balances with one another at their par value as defined in terms of bancor. Countries having a favourable balance of payments with the rest of the world as a whole would find themselves in possession of a credit account with the Clearing Union, and those having an unfavourable balance would have a debit account. Measures would be necessary (see below) to prevent the piling up of credit and debit balances without limit, and the system would have failed in the long run if it did not possess sufficient capacity for self-equilibrium to secure this.

5. The idea underlying such a Union is simple, namely, to generalise the essential principle of banking as it is exhibited within any closed system. This principle is the necessary equality of credits and debits. If no credits can be removed outside the clearing system, but only transferred within it, the Union can never be in any difficulty as regards the honouring of cheques drawn upon it. It can make what advances it wishes to any of its members with the assurance that the proceeds can only be transferred to the clearing account of another member. Its sole task is to see to it that its members keep the rules and that the advances made to each of them are prudent and advisable for the Union as a whole.

II.—THE PROVISIONS OF THE PLAN.

6. The provisions proposed (the particular proportions and other details suggested being tentative as a basis of discussion) are the following:—

(1) All the United Nations will be invited to become original members of the International Clearing Union. Other States may be invited to join subsequently. If ex-enemy States are invited to join, special conditions may be applied to them.

(2) The Governing Board of the Clearing Union shall be appointed by the Governments of the several member States (as provided in (12) below); the daily business with the Union and the technical arrangements being carried out through their Central Banks or other appropriate authorities.

(3) The member States will agree between themselves the initial values of their own currencies in terms of bancor. A member State may not subsequently alter the value of its currency in terms of bancor without the permission of the Governing Board except under the conditions stated below; but during the first five years after the inception of the system the Governing Board shall give special consideration to appeals for an adjustment in the exchange value of a national currency unit on the ground of unforeseen circumstances.

(4) The value of bancor in terms of gold shall be fixed by the Governing Board. Member States shall not purchase or acquire gold, directly or indirectly, at a price in terms of their national currencies in excess of the parity which corresponds to the value of their currency in terms of bancor and to the value of bancor in terms of gold. Their sales and purchases of gold shall not be otherwise restricted.

(5) Each member State shall have assigned to it a *quota*, which shall determine the measure of its responsibility in the management of the Union and of its right to enjoy the credit facilities provided by the Union. The initial quotas might be fixed by reference to the sum of each country's exports and imports on the average of (say) the three pre-war years, and might be (say) 75 per cent. of this amount, a special assessment being substituted in cases (of which there might be several) where this formula would be, for any reason, inappropriate. Subsequently, after the elapse of the transitional period, the quotas should be revised annually in accordance with the running average of each country's actual volume of trade in the three preceding years, rising to a five-year average when figures for five post-war years are available. The determination of a country's quota primarily by reference to the value of its foreign trade seems to offer the criterion most relevant to a plan which is chiefly concerned with the regulation of the foreign exchanges and of a country's international trade balance. It is, however, a matter for discussion whether the formula for fixing quotas should also take account of other factors.

(6) Member States shall agree to accept payment of currency balances, due to them from other members, by a transfer of bancor to their credit in the books of the Clearing Union. They shall be entitled, subject to the conditions set forth below, to make transfers of bancor to other members which have the effect of overdrawing their own accounts with the Union, provided that the maximum debit balances thus created do not exceed their quota. The Clearing Union may, at its discretion, charge a small commission or transfer fee in respect of transactions in its books for the purpose of meeting its current expenses or any other outgoings approved by the Governing Board.

(7) A member State shall pay to the Reserve Fund of the Clearing Union a charge of 1 per cent. per annum on the amount of its average balance in bancor, whether it is a credit or a debit balance, in excess of a quarter of its quota; and a further charge of 1 per cent. on its average balance, whether credit or debit, in excess of a half of its quota. Thus, only a country which keeps as nearly as possible in a state of international balance on the average of the year will escape this contribution. These charges are not absolutely essential to the scheme. But if they are found acceptable, they would be valuable and important inducements towards keeping a level balance, and a significant indication that the system looks on excessive credit balances with as critical an eye as on excessive debit balances, each being, indeed, the

inevitable concomitant of the other. Any member State in debit may, after consultation with the Governing Board, borrow bancor from the balances of any member State in credit on such terms as may be mutually agreed, by which means each would avoid these contributions. The Governing Board may, at its discretion, remit the charges on credit balances, and increase correspondingly those on debit balances, if in its opinion unduly expansionist conditions are impending in the world economy.

(8)—(*a*) A member State may not increase its debit balance by more than a *quarter* of its quota within a year without the permission of the Governing Board. If its debit balance has exceeded a quarter of its quota on the average of at least two years, it shall be entitled to reduce the value of its currency in terms of bancor provided that the reduction shall not exceed 5 per cent. without the consent of the Governing Board; but it shall not be entitled to repeat this procedure unless the Board is satisfied that this procedure is appropriate.

(*b*) The Governing Board may require from a member State having a debit balance reaching a *half* of its quota the deposit of suitable collateral against its debit balance. Such collateral shall, at the discretion of the Governing Board, take the form of gold, foreign or domestic currency or Government bonds, within the capacity of the member State. As a condition of allowing a member State to increase its debit balance to a figure in excess of a half of its quota, the Governing Board may require all or any of the following measures:—

(i) a stated reduction in the value of the member's currency, if it deems that to be the suitable remedy;

(ii) the control of outward capital transactions if not already in force; and

(iii) the outright surrender of a suitable proportion of any separate gold or other liquid reserve in reduction of its debit balance.

Furthermore, the Governing Board may recommend to the Government of the member State any internal measures affecting its domestic economy which may appear to be appropriate to restore the equilibrium of its international balance.

(*c*) If a member State's debit balance has exceeded *three-quarters* of its quota on the average of at least a year and is excessive in the opinion of the Governing Board in relation to the total debit balances outstanding on the books of the Clearing Union, or is increasing at an excessive rate, it may, in addition, be asked by the Governing Board to take measures to improve its position, and, in the event of its failing to reduce its debit balance accordingly within two years, the Governing Board may declare that it is in default and no longer entitled to draw against its account except with the permission of the Governing Board.

(*d*) Each member State, on joining the system, shall agree to pay to the Clearing Union any payments due from it to a country in default towards the discharge of the latter's debit balance and to accept this arrangement in the event of falling into default itself. A member State which resigns from the Clearing Union without making approved arrangements for the discharge of any debit balance shall also be treated as in default.

(9) A member State whose credit balance has exceeded a *half* of its quota on the average of at least a year shall discuss with the Governing Board (but

shall retain the ultimate decision in its own hands) what measures would be appropriate to restore the equilibrium of its international balances, including—

(*a*) Measures for the expansion of domestic credit and domestic demand.

(*b*) The appreciation of its local currency in terms of bancor, or, alternatively, the encouragement of an increase in money rates of earnings;

(*c*) The reduction of tariffs and other discouragements against imports.

(*d*) International development loans.

(10) A member State shall be entitled to obtain a credit balance in terms of bancor by paying in gold to the Clearing Union for the credit of its clearing account. But no one is entitled to demand gold from the Union against a balance of bancor, since such balance is available only for transfer to another clearing account. The Governing Board of the Union shall, however, have the discretion to distribute any gold in the possession of the Union between the members possessing credit balances in excess of a specified proportion of their quotas, proportionately to such balances, in reduction of their amount in excess of that proportion.

(11) The monetary reserves of a member State, viz., the Central Bank or other bank or Treasury deposits in excess of a working balance, shall not be held in another country except with the approval of the monetary authorities of that country.

(12) The Governing Board shall be appointed by the Governments of the member States, those with the larger quotas being entitled to appoint a member individually, and those with smaller quotas appointing in convenient political or geographical groups, so that the members would not exceed (say) 12 or 15 in number. Each representative on the Governing Board shall have a vote in proportion to the quotas of the State (or States) appointing him, except that on a proposal to increase a particular quota, a representative's voting power shall be measured by the quotas of the member States appointing him, increased by their credit balance or decreased by their debit balance, averaged in each case over the past two years. Each member State, which is not individually represented on the Governing Board, shall be entitled to appoint a permanent delegate to the Union to maintain contact with the Board and to act as *liaison* for daily business and for the exchange of information with the Executive of the Union. Such delegate shall be entitled to be present at the Governing Board when any matter is under consideration which specially concerns the State he represents, and to take part in the discussion.

(13) The Governing Board shall be entitled to reduce the quotas of members, all in the same specified proportion, if it seems necessary to correct in this manner an excess of world purchasing power. In that event, the provisions of 6 (8) shall be held to apply to the quotas as so reduced, provided that no member shall be required to reduce his actual overdraft at the date of the change, or be entitled by reason of this reduction to alter the value of his currency under 6 (8) (*a*), except after the expiry of two years. If the Governing Board subsequently desires to correct a potential deficiency of world purchasing power, it shall be entitled to restore the general level of quotas towards the original level.

(14) The Governing Board shall be entitled to ask and receive from each member State any relevant statistical or other information, including a full disclosure of gold, external credit and debit balances and other external assets and liabilities, both public and private. So far as circumstances permit, it will be desirable that the member States shall consult with the Governing

board on important matters of policy likely to affect substantially their bancor balances or their financial relations with other members.

(15) Executive offices of the Union shall be situated in London and New York, with the Governing Board meeting alternately in London and Washington.

(16) Members shall be entitled to withdraw from the Union on a year's notice, subject to their making satisfactory arrangements to discharge any debit balance. They would not, of course, be able to employ any credit balance except by making transfers from it, either before or after their withdrawal, to the Clearing Accounts of other Central Banks. Similarly, it should be within the power of the Governing Board to require the withdrawal of a member, subject to the same notice, if the latter is in breach of agreements relating to the Clearing Union.

(17) The Central Banks of non-member States would be allowed to keep credit clearing accounts with the Union; and, indeed, it would be advisable for them to do so for the conduct of their trade with member States. But they would have no right to overdrafts and no say in the management.

(18) The Governing Board shall make an annual Report and shall convene an annual Assembly at which every member State shall be entitled to be represented individually and to move proposals. The principles and governing rules of the Union shall be the subject of reconsideration after five years' experience, if a majority of the Assembly desire it.

III.—WHAT LIABILITIES OUGHT THE PLAN TO PLACE ON CREDITOR COUNTRIES?

7. It is not contemplated that either the debit or the credit balance of an individual country ought to exceed a certain maximum—let us say, its *quota*. In the case of debit balances this maximum has been made a rigid one, and, indeed, counter-measures are called for long before the maximum is reached. In the case of credit balances no rigid maximum has been proposed. For the appropriate provision might be to require the eventual cancellation or compulsory investment of persistent bancor credit balances accumulating in excess of a member's quota; and, however desirable this may be in principle, it might be felt to impose on creditor countries a heavier burden than they can be asked to accept before having had experience of the benefit to them of the working of the plan as a whole. If, on the other hand, the limitation were to take the form of the creditor country not being required to accept bancor in excess of a prescribed figure, this might impair the general acceptability of bancor, whilst at the same time conferring no real benefit on the creditor country itself. For, if it chose to avail itself of the limitation, it must either restrict its exports or be driven back on some form of bilateral payments agreements outside the Clearing Union, thus substituting a less acceptable asset for bancor balances which are based on the collective credit of all the member States and are available for payments to any of them, or attempt the probably temporary expedient of refusing to trade except on a gold basis.

8. The absence of a rigid maximum to credit balances does not impose on any member State, as might be supposed at first sight, an unlimited liability outside its own control. The liability of an individual member is determined, not by the quotas of the other members, but by its own policy in controlling its favourable balance of payments. The existence of the Clearing Union does not deprive a member State of any of the facilities which it now possesses for

receiving payment for its exports. In the absence of the Clearing Union a creditor country can employ the proceeds of its exports to buy goods or to buy investments, or to make temporary advances and to hold temporary overseas balances, or to buy gold in the market. All these facilities will remain at its disposal. The difference is that in the absence of the Clearing Union, more or less automatic factors come into play to restrict the volume of its exports after the above means of receiving payment for them have been exhausted. Certain countries become unable to buy and, in addition to this, there is an automatic tendency towards a general slump in international trade and, as a result, a reduction in the exports of the creditor country. Thus, the effect of the Clearing Union is to give the creditor country a choice between voluntarily curtailing its exports to the same extent that they would have been involuntarily curtailed in the absence of the Clearing Union, or, alternatively, of allowing its exports to continue and accumulating the excess receipts in the form of bancor balances for the time being. Unless the removal of a factor causing the involuntary reduction of exports is reckoned a disadvantage, a creditor country incurs no burden but is, on the contrary, relieved, by being offered the additional option of receiving payment for its exports through the accumulation of a bancor balance.

9. If, therefore, a member State asks what governs the maximum liability which it incurs by entering the system, the answer is that this lies entirely within its own control. No more is asked of it than that it should hold in bancor such surplus of its favourable balance of payments as it does not itself choose to employ in any other way, and only for so long as it does not so choose.

IV.—SOME ADVANTAGES OF THE PLAN.

10. The plan aims at the substitution of an expansionist, in place of a contractionist, pressure on world trade.

11. It effects this by allowing to each member State overdraft facilities of a defined amount. Thus each country is allowed a certain margin of resources and a certain interval of time within which to effect a balance in its economic relations with the rest of the world. These facilities are made possible by the constitution of the system itself and do not involve particular indebtedness between one member State and another. A country is in credit or debit with the Clearing Union as a whole. This means that the overdraft facilities, whilst a relief to some, are not a real burden to others. For the accumulation of a credit balance with the Clearing Union would resemble the importation of gold in signifying that the country holding it is abstaining voluntarily from the immediate use of purchasing power. But it would not involve, as would the importation of gold, the withdrawal of this purchasing power from circulation or the exercise of a deflationary and contractionist pressure on the whole world, including in the end the creditor country itself. Under the proposed plan, therefore, no country suffers injury (but on the contrary) by the fact that the command over resources, which it does not itself choose to employ for the time being, is not withdrawn from use. The accumulation of bancor credit does not curtail in the least its capacity or inducement either to produce or to consume.

12. In short, the analogy with a national banking system is complete. No depositor in a local bank suffers because the balances, which he leaves idle, are employed to finance the business of someone else. Just as the development of national banking systems served to offset a deflationary pressure which would have prevented otherwise the development of modern industry, so by

extending the same principle into the international field we may hope to offset the contractionist pressure which might otherwise overwhelm in social disorder and disappointment the good hopes of our modern world. The substitution of a credit mechanism in place of hoarding would have repeated in the international field the same miracle, already performed in the domestic field, of turning a stone into bread.

13. There might be other ways of effecting the same objects temporarily or in part. For example, the United States might redistribute her gold. Or there might be a number of bilateral arrangements having the effect of providing international overdrafts, as, for example, an agreement by the Federal Reserve Board to accumulate, if necessary, a large sterling balance at the Bank of England, accompanied by a great number of similar bilateral arrangements, amounting to some hundreds altogether, between these and all the other banks in the world. The objection to particular arrangements of this kind, in addition to their greater complexity, is that they are likely to be influenced by extraneous, political reasons; that they put individual countries in a position of particular obligation towards others; and that the distribution of the assistance between different countries may not correspond to need and to the real requirements, which are extremely difficult to foresee.

14. It should be much easier, and surely more satisfactory for all of us, to enter into a general and collective responsibility, applying to all countries alike, that a country finding itself in a creditor position *against the rest of the world as a whole* should enter into an arrangement not to allow this credit balance to exercise a contractionist pressure against world economy and, by repercussion, against the economy of the creditor country itself. This would give everyone the great assistance of multilateral clearing, whereby (for example) Great Britain could offset favourable balances arising out of her exports to Europe against unfavourable balances due to the United States or South America or elsewhere. How, indeed, can any country hope to start up trade with Europe during the relief and reconstruction period on any other terms?

15. The facilities offered will be of particular importance in the transitional period after the war, as soon as the initial shortages of supply have been overcome. Many countries will find a difficulty in paying for their imports, and will need time and resources before they can establish a readjustment. The efforts of each of these debtor countries to preserve its own equilibrium, by forcing its exports and by cutting off all imports which are not strictly necessary, will aggravate the problems of all the others. On the other hand, if each feels free from undue pressure, the volume of international exchange will be increased and everyone will find it easier to re-establish equilibrium without injury to the standard of life anywhere. The creditor countries will benefit, hardly less than the debtors, by being given an interval of *time* in which to adjust their economies, during which they can safely move at their own pace without the result of exercising deflationary pressure on the rest of the world, and, by repercussion, on themselves.

16. It must, however, be emphasised that the provision by which the members of the Clearing Union start with substantial overdraft facilities in hand will be mainly useful, just as the possession of any kind of reserve is useful, to allow time and method for necessary adjustments and a comfortable safeguard behind which the unforeseen and the unexpected can be faced with equanimity. Obviously, it does not by itself provide any long-term solution against a continuing disequilibrium, for in due course the more improvident and the more impecunious, left to themselves, would have run through their resources. But, if the purpose of the overdraft facilities is mainly to give time for adjustments,

we have to make sure, so far as possible, that they *will* be made. We must have, therefore, some rules and some machinery to secure that equilibrium is restored. A tentative attempt to provide for this has been made above. Perhaps it might be strengthened and improved.

17. The provisions suggested differ in one important respect from the pre-war system because they aim at putting some part of the responsibility for adjustment on the creditor country as well as on the debtor. This is an attempt to recover one of the advantages which were enjoyed in the nineteenth century, when a flow of gold due to a favourable balance in favour of London and Paris, which were then the main creditor centres, immediately produced an expansionist pressure and increased foreign lending in those markets, but which has been lost since New York succeeded to the position of main creditor, as a result of gold movements failing in their effect, of the breakdown of international borrowing and of the frequent flight of loose funds from one depository to another. The object is that the creditor should not be allowed to remain entirely passive. For if he is, an intolerably heavy task may be laid on the debtor country, which is already for that very reason in the weaker position.

18. If, indeed, a country lacks the productive capacity to maintain its standard of life, then a reduction in this standard is not avoidable. If its wage and price levels in terms of money are out of line with those elsewhere, a change in the rate of its foreign exchange is inevitable. But if, possessing the productive capacity, it lacks markets because of restrictive policies throughout the world, then the remedy lies in expanding its opportunities for export by removal of the restrictive pressure. We are too ready to-day to assume the inevitability of unbalanced trade positions, thus making the opposite error to those who assumed the tendency of exports and imports to equality. It used to be supposed, without sufficient reason, that effective demand is always properly adjusted throughout the world; we now tend to assume, equally without sufficient reason, that it never can be. On the contrary, there is great force in the contention that, if active employment and ample purchasing power can be sustained in the main centres of the world trade, the problem of surpluses and unwanted exports will largely disappear, even though, under the most prosperous conditions, there may remain some disturbances of trade and unforeseen situations requiring special remedies.

V.—THE DAILY MANAGEMENT OF THE EXCHANGES UNDER THE PLAN.

19. The Clearing Union restores unfettered multilateral clearing between its members. Compare this with the difficulties and complications of a large number of bilateral agreements. Compare, above all, the provisions by which a country, taking improper advantage of a payments agreement (for the system is, in fact, a *generalised* payments agreement), as Germany did before the war, is dealt with not by a single country (which may not be strong enough to act effectively in isolation or cannot afford to incur the diplomatic odium of isolated action), but by the system as a whole. If the argument is used that the Clearing Union may have difficulty in disciplining a misbehaving country and in avoiding consequential loss, with what much greater force can we urge this objection against a multiplicity of separate bilateral payments agreements.

20. Thus we should not only obtain the advantages, without the disadvantages, of an international gold currency, but we might enjoy these advantages more widely than was ever possible in practice with the old system under which at any given time only a minority of countries were actually working with free

exchanges. In conditions of multilateral clearing, exchange dealings would be carried on as freely as in the best days of the gold standard, without its being necessary to ask anyone to accept special or onerous conditions.

21. The principles governing transactions are: first, that the Clearing Union is set up, not for the transaction of daily business between individual traders or banks, but for the clearing and settlement of the ultimate outstanding balances between Central Banks (and certain other super-national Institutions), such as would have been settled under the old gold standard by the shipment or the earmarking of gold, and should not trespass unnecessarily beyond this field; and, second, that its purpose is to increase *freedom* in international commerce and not to multiply interferences or compulsions.

22. Many Central Banks have found great advantage in centralising with themselves or with an Exchange Control the supply and demand of all foreign exchange, thus dispensing with an outside exchange market, though continuing to accommodate individuals through the existing banks and not directly. The further extension of such arrangements would be consonant with the general purposes of the Clearing Union, inasmuch as they would promote order and discipline in international exchange transactions in detail as well as in general. The same is true of the control of Capital Movements, further described below, which many States are likely to wish to impose on their own nationals. But the structure of the proposed Clearing Union does not *require* such measures of centralisation or of control on the part of a member State. It is, for example, consistent alike with the type of Exchange Control now established in the United Kingdom or with the system now operating in the United States. The Union does not prevent private holdings of foreign currency or private dealings in exchange or international capital movements, if these have been approved or allowed by the member States concerned. Central Banks can deal direct with one another as heretofore. No transaction in bancor will take place except when a member State or its Central Bank is exercising the right to pay in it. In no case is there any direct control of capital movements by the Union, even in the case of 6 (8) (*b*) (ii) above, but only by the member States themselves through their own institutions. Thus the fabric of international banking organisation, built up by long experience to satisfy practical needs, would be left as undisturbed as possible.

23. It is not necessary to interfere with the discretion of countries which desire to maintain a special intimacy within a particular group of countries associated by geographical or political ties, such as the existing sterling area, or groups, like the Latin Union of former days, which may come into existence covering, for example, the countries of North America or those of South America, or the groups now under active discussion, including Poland and Czechoslovakia or certain of the Balkan States. There is no reason why such countries should not be allowed a double position, both as members of the Clearing Union in their own right with their proper quota, and also as making use of another financial centre along traditional lines, as, for example, Australia and India with London, or certain American countries with New York. In this case, their accounts with the Clearing Union would be in exactly the same position as the independent gold reserves which they now maintain, and they would have no occasion to modify in any way their present practices in the conduct of daily business.

24. There might be other cases, however, in which a dependency or a member of a federal union would merge its currency identity in that of a mother country, with a quota appropriately adjusted to the merged currency area as a whole, and *not* enjoy a separate individual membership of the Clearing Union, as, for example, the States of a Federal Union, the French colonies or the British Crown Colonies.

25. At the same time countries, which do not belong to a special geographical or political group, would be expected to keep their reserve balances with the Clearing Union and not with one another. It has, therefore, been laid down that balances may not be held in another country except with the approval of the monetary authorities of that country; and, in order that sterling and dollars might not appear to compete with bancor for the purpose of reserve balances, the United Kingdom and the United States might agree together that they would not accept the reserve balances of other countries in excess of normal working balances except in the case of banks definitely belonging to a Sterling Area or Dollar Area group.

VI.—THE POSITION OF GOLD UNDER THE PLAN.

26. Gold still possesses great psychological value which is not being diminished by current events; and the desire to possess a gold reserve against unforeseen contingencies is likely to remain. Gold also has the merit of providing in point of form (whatever the underlying realities may be) an uncontroversial standard of value for international purposes, for which it would not yet be easy to find a serviceable substitute. Moreover, by supplying an automatic means for settling some part of the favourable balances of the creditor countries, the current gold production of the world and the remnant of gold reserves held outside the United States may still have a useful part to play. Nor is it reasonable to ask the United States to de-monetise the stock of gold which is the basis of its impregnable liquidity. What, in the long run, the world may decide to do with gold is another matter. The purpose of the Clearing Union is to supplant gold as a governing factor, but not to dispense with it.

27. The international bank-money which we have designated *bancor* is defined in terms of a weight of gold. Since the national currencies of the member States are given a defined exchange value in terms of bancor, it follows that they would each have a defined gold content which would be their official buying price for gold, above which they must not pay. The fact that a member State is entitled to obtain a credit in terms of bancor by paying actual gold to the credit of its clearing account, secures a steady and ascertained purchaser for the output of the gold-producing countries, and for countries holding a large reserve of gold. Thus the position of producers and holders of gold is not affected adversely, and is, indeed, improved.

28. Central Banks would be entitled to retain their separate gold reserves and ship gold to one another, provided they did not pay a price above parity; they could coin gold and put it into circulation, and, generally speaking, do what they liked with it.

29. One limitation only would be, for obvious reasons, essential. No member State would be entitled to demand gold from the Clearing Union against its balance of bancor; for bancor is available only for transfer to another clearing account. Thus between gold and bancor itself there would be a one-way convertibility, such as ruled frequently before the war with national currencies which were on what was called a "gold exchange standard." This need not mean that the Clearing Union would only receive gold and never pay it out. It has been provided above that, if the Clearing Union finds itself in possession of a stock of gold, the Governing Board shall have discretion to distribute the surplus between those possessing credit balances in bancor, proportionately to such balances in reduction of their amount.

30. The question has been raised whether these arrangements are compatible with the retention by individual member States of a full gold standard with

two-way convertibility, so that, for example, any foreign central bank acquiring dollars could use them to obtain gold for export. It is not evident that a good purpose would be served by this. But it need not be prohibited, and if any member State should prefer to maintain full convertibility for interval purposes it could protect itself from any abuse of the system or inconvenient consequences by providing that gold could only be exported under licence.

31. The value of bancor in terms of gold is fixed but not unalterably. The power to vary its value might have to be exercised if the stocks of gold tendered to the Union were to be excessive. No object would be served by attempting further to peer into the future or to prophesy the ultimate outcome.

VII.—THE CONTROL OF CAPITAL MOVEMENTS.

32. There is no country which can, in future, safely allow the flight of funds for political reasons or to evade domestic taxation or in anticipation of the owner turning refugee. Equally, there is no country that can safely receive fugitive funds, which constitute an unwanted import of capital, yet cannot safely be used for fixed investment.

33. For these reasons it is widely held that control of capital movements, both inward and outward, should be a permanent feature of the post-war system. It is an objection to this that control, if it is to be effective, probably requires the machinery of exchange control for *all* transactions, even though a general permission is given to all remittances in respect of current trade. Thus those countries which have for the time being no reason to fear, and may indeed welcome, outward capital movements, may be reluctant to impose this machinery, even though a general permission for capital, as well as current, transactions reduces it to being no more than a machinery of record. On the other hand, such control will be more difficult to work by unilateral action on the part of those countries which cannot afford to dispense with it, especially in the absence of a postal censorship, if movements of capital cannot be controlled *at both ends*. It would, therefore, be of great advantage if the United States, as well as other members of the Clearing Union, would adopt machinery similar to that which the British Exchange Control has now gone a long way towards perfecting. Nevertheless, the universal establishment of a control of capital movements cannot be regarded as essential to the operation of the Clearing Union; and the method and degree of such control should therefore be left to the decision of each member State. Some less drastic way might be found by which countries, not themselves controlling outward capital movements, can deter inward movements not approved by the countries from which they originate.

34. The position of abnormal balances in overseas ownership held in various countries at the end of the war presents a problem of considerable importance and special difficulty. A country in which a large volume of such balances is held could not, unless it is in a creditor position, afford the risk of having to redeem them in bancor on a substantial scale, if this would have the effect of depleting its bancor resources at the outset. At the same time, it is very desirable that the countries owning these balances should be able to regard them as liquid, at any rate over and above the amounts which they can afford to lock up under an agreed programme of funding or long-term expenditure. Perhaps there should be some special over-riding provision for dealing with the transitional period only by which, through the aid of the Clearing Union, such balances would remain liquid and convertible into bancor by the creditor country whilst there would be no corresponding strain on the bancor resources of the debtor country, or, at any rate, the resulting strain would be spread over a period.

35. The advocacy of a control of capital movements must not be taken to mean that the era of international investment should be brought to an end. On the contrary, the system contemplated should greatly facilitate the restoration of international loans and credits for legitimate purposes. The object, and it is a vital object, is to have a means—

(*a*) of distinguishing long-term loans by creditor countries, which help to maintain equilibrium and develop the world's resources, from movements of funds out of debtor countries which lack the means to finance them; and

(*b*) of controlling short-term speculative movements or flights of currency whether out of debtor countries or from one creditor country to another.

36. It should be emphasised that the purpose of the overdrafts of bancor permitted by the Clearing Union is, not to facilitate long-term, or even medium-term, credits to be made by debtor countries which cannot afford them, but to allow time and a breathing space for adjustments and for averaging one period with another to all member States alike, whether in the long run they are well-placed to develop a forward international loan policy or whether their prospects of profitable new development in excess of their own resources justifies them in long-term borrowing. The machinery and organisation of international medium-term and long-term lending is another aspect of post-war economic policy, not less important than the purposes which the Clearing Union seeks to serve, but requiring another, complementary institution.

VIII.—RELATION OF THE CLEARING UNION TO COMMERCIAL POLICY.

37. The special protective expedients which were developed between the two wars were sometimes due to political, social or industrial reasons. But frequently they were nothing more than forced and undesired dodges to protect an unbalanced position of a country's overseas payments. The new system, by helping to provide a register of the size and whereabouts of the aggregate debtor and creditor positions respectively, and an indication whether it is reasonable for a particular country to adopt special expedients as a temporary measure to assist in regaining equilibrium in its balance of payments, would make it possible to establish a general rule *not* to adopt them, subject to the indicated exceptions.

38. The existence of the Clearing Union would make it possible for member States contracting commercial agreements to use their respective debit and credit positions with the clearing Union as a test, though this test by itself would not be complete. Thus, the contracting parties, whilst agreeing to clauses in a commercial agreement forbidding, in general, the use of certain measures or expedients in their mutual trade relations, might make this agreement subject to special relaxations if the state of their respective clearing accounts satisfied an agreed criterion. For example, an agreement might provide that, in the event of one of the contracting States having a debit balance with the Clearing Union exceeding a specified proportion of its quota on the average of a period it should be free to resort to import regulation or to barter trade agreements or to higher import duties of a type which was restricted under the agreement in normal circumstances. Protected by the possibility of such temporary indulgences, the members of the Clearing Union should feel much more confidence in moving towards the withdrawal of other and more dislocating forms of protection and discrimination and in accepting the prohibition of the worst of them from the outset. In any case, it should be laid down that members of the Union would not allow or suffer among themselves any restrictions on the disposal of receipts arising out of current trade or " invisible " income.

IX.—THE USE OF THE CLEARING UNION FOR OTHER INTERNATIONAL PURPOSES.

39. The Clearing Union might become the instrument and the support of international policies in addition to those which it is its primary purpose to promote. This deserves the greatest possible emphasis. The Union might become the pivot of the future economic government of the world. Without it, other more desirable developments will find themselves impeded and unsupported. With it, they will fall into their place as parts of an ordered scheme. No one of the following suggestions is a necessary part of the plan. But they are illustrations of the additional purposes of high importance and value which the Union, once established, might be able to serve:—

(1) The Union might set up a clearing account in favour of international bodies charged with post-war relief, rehabilitation and reconstruction. But it could go much further than this. For it might supplement contributions received from other sources by granting preliminary overdraft facilities in favour of these bodies, the overdraft being discharged over a period of years out of the Reserve Fund of the Union, or, if necessary, out of a levy on surplus credit balances. So far as this method is adopted it would be possible to avoid asking any country to assume a burdensome commitment for relief and reconstruction, since the resources would be provided in the first instance by those countries having credit clearing accounts for which they have no immediate use and are voluntarily leaving idle, and in the long run by those countries which have a chronic international surplus for which they have no beneficial employment.

(2) The Union might set up an account in favour of any super-national policing body which may be charged with the duty of preserving the peace and maintaining international order. If any country were to infringe its properly authorised orders, the policing body might be entitled to request the Governors of the Clearing Union to hold the clearing account of the delinquent country to its order and permit no further transactions on the account except by its authority. This would provide an excellent machinery for enforcing a financial blockade.

(3) The Union might set up an account in favour of international bodies charged with the management of a Commodity Control, and might finance stocks of commodities held by such bodies, allowing them overdraft facilities on their accounts up to an agreed maximum. By this means the financial problem of buffer stocks and "ever-normal granaries" could be effectively attacked.

(4) The Union might be linked up with a Board for International Investment. It might act on behalf of such a Board and collect for them the annual service of their loans by automatically debiting the clearing account of the country concerned. The statistics of the clearing accounts of the member-States would give a reliable indication as to which countries were in a position to finance the Investment Board, with the advantage of shifting the whole system of clearing credits and debits nearer to equilibrium.

(5) There are various methods by which the Clearing Union could use its influence and its powers to maintain stability of prices and to control the Trade Cycle. If an International Economic Board is established, this Board and the Clearing Union might be expected to work in close collaboration to their mutual advantage. If an International Investment or Development Corporation is also set up together with a scheme of Commodity Controls for the control of stocks of the staple primary products, we might come to possess in these three Institutions a powerful means of combating the evils of the

Trade Cycle, by exercising contractionist or expansionist influence on the system as a whole or on particular sections. This is a large and important question which cannot be discussed adequately in this paper; and need not be examined at length in this place because it does not raise any important issues affecting the fundamental constitution of the proposed Union. It is mentioned here to complete the picture of the wider purposes which the foundation of the Clearing Union might be made to serve.

40. The facility of applying the Clearing Union plan to these several purposes arises out of a fundamental characteristic which is worth pointing out, since it distinguishes the plan from those proposals which try to develop the same basic principle along bilateral lines and is one of the grounds on which the Plan can claim superior merit. This might be described as its "anonymous" or "impersonal" quality. No particular member States have to engage their own resources as such to the support of other particular States or of any of the international projects or policies adopted. They have only to agree in general that, if they find themselves with surplus resources which for the time being they do not themselves wish to employ, these resources may go into the general pool and be put to work on approved purposes. This costs the surplus country nothing because it is not asked to part permanently, or even for any specified period, with such resources, which it remains free to expend and employ for its own purposes whenever it chooses; in which case the burden of finance is passed on to the next recipient, again for only so long as the recipient has no use for the money. As pointed out above, this merely amounts to extending to the international sphere the methods of any domestic banking system, which are in the same sense "impersonal" inasmuch as there is no call on the particular depositor either to support as such the purposes for which his banker makes advances or to forgo permanently the use of his deposit. There is no countervailing objection except that which applies equally to the technique of domestic banking, namely that it is capable of the abuse of creating excessive purchasing power and hence an inflation of prices. In our efforts to avoid the opposite evil, we must not lose sight of this risk, to which there is an allusion in 39 (5) above. But it is no more reason for refusing the advantages of international banking than the similar risk in the domestic field is a reason to return to the practices of the seventeenth century goldsmiths (which are what we are still following in the international field) and to forgo the vast expansion of production which banking principles have made possible. Where financial contributions are required for some purpose of general advantage, it is a great facility not to have to ask for specific contributions from any named country, but to depend rather on the anonymous and impersonal aid of the system as a whole. We have here a genuine organ of truly international government.

X.—THE TRANSITIONAL ARRANGEMENTS.

41. It would be of great advantage to agree the general principles of the Clearing Union before the end of the war, with a view to bringing it into operation at an early date after the termination of hostilities. Major plans will be more easily brought to birth in the first energy of victory and whilst the active spirit of united action still persists, than in the days of exhaustion and reaction from so much effort which may well follow a little later. Such a proposal presents, however, something of a dilemma. On the one hand, many countries will be in particular need of reserves of overseas resources in the period immediately after the war. On the other hand, goods will be in short supply and the prevention of inflationary international conditions of much more importance for the time being than the opposite. The expansionist tendency of the plan, which is a leading recommendation of it as soon as

peace-time output is restored and the productive capacity of the world is in running order, might be a danger in the early days of a sellers' market and an excess of demand over supply.

42. A reconciliation of these divergent purposes is not easily found until we know more than is known at present about the means to be adopted to finance post-war relief and reconstruction. If the intention is to provide resources on liberal and comprehensive lines outside the resources made available by the Clearing Union and additional to them, it might be better for such specific aid to take the place of the proposed overdrafts during the " relief " period of (say) two years. In this case credit clearing balances would be limited to the amount of gold delivered to the Union, and the overdraft facilities created by the Union in favour of the Relief Council, the International Investment Board or the Commodity Controls. Nevertheless, the immediate establishment of the Clearing Union would not be incompatible with provisional arrangements, which could take alternative forms according to the character of the other " relief " arrangements, qualifying and limiting the overdraft quotas. Overdraft quotas might be allowed on a reduced scale during the transitional period. Or it might be proper to provide that countries in receipt of relief or Lend-Lease assistance should not have access at the same time to overdraft facilities, and that the latter should only become available when the former had come to an end. If, on the other hand, relief from outside sources looks like being inadequate from the outset, the overdraft quotas may be even more necessary at the outset than later on.

43. We must not be over-cautious. A rapid economic restoration may lighten the tasks of the diplomatists and the politicians in the resettlement of the world and the restoration of social order. For Great Britain and other countries outside the " relief " areas the possibility of exports sufficient to sustain their standard of life is bound up with good and expanding markets. We cannot afford to wait too long for this, and we must not allow excessive caution to condemn us to perdition. Unless the Union is a going concern, the problem of proper " timing " will be nearly insoluble. It is sufficient at this stage to point out that the problem of timing must not be overlooked, but that the Union is capable of being used so as to aid rather than impede its solution.

XI.—CONCLUSION.

44. It has been suggested that so ambitious a proposal is open to criticism on the ground that it requires from the members of the Union a greater surrender of their sovereign rights than they will readily concede. But no greater surrender is required than in a commercial treaty. The obligations will be entered into voluntarily and can be terminated on certain conditions by giving notice.

45. A greater readiness to accept super-national arrangements must be required in the post-war world. If the arrangements proposed can be described as a measure of financial disarmament, there is nothing here which we need be reluctant to accept ourselves or to ask of others. It is an advantage, and not a disadvantage, of the scheme that it invites the member States to abandon that licence to promote indiscipline, disorder and bad-neighbourliness which, to the general disadvantage, they have been free to exercise hitherto.

46. The plan makes a beginning at the future economic ordering of the world between nations and " the winning of the peace." It might help to create the conditions and the atmosphere in which much else would be made easier.

April, 1943.

(36559) Wt. 745—26 7/44 D.L. G. 390 (*T.S. 2913*)

45

United States Proposal for A UNITED AND ASSOCIATED NATIONS STABILIZATION FUND

CX. p. 26

PRELIMINARY DRAFT OUTLINE RELEASED BY THE UNITED STATES TREASURY FOR PUBLICATION APRIL 7, 1943

Reprinted by
HIS MAJESTY'S STATIONERY OFFICE, LONDON
1943

PRESENTED herewith is the preliminary draft outline of a proposal for a United and Associated Nations Stabilization Fund, together with an explanatory Introduction. This material was released by the United States Secretary of the Treasury for publication April 7, 1943. The proposal is not an expression of the official views of the United States Government, but is put forward as an indication of the views widely held by the technical experts of the Government.

Earlier the same material had been sent by Secretary Morgenthau to the Ministers of Finance of thirty-seven countries inviting them to send technical experts to Washington to discuss informally suggestions for an international stabilization fund. A copy of Secretary Morgenthau's letter of transmittal and a list of the countries to whose Finance Ministers the proposal was sent will be found in the Appendix.

INTRODUCTION

IT is still too soon to know the precise form and magnitude of post-war monetary problems. But it is certain that we shall be confronted with the task of dealing with three inseparable monetary problems: to prevent the disruption of foreign exchanges, to avoid the collapse of some monetary systems, and to facilitate the restoration and balanced growth of international trade. Clearly, such a formidable task can be successfully handled only through international action.

The creation of instrumentalities adequate to deal with the inevitable post-war monetary problems should not be postponed until the end of hostilities. It would be ill-advised if not dangerous to leave ourselves unprepared at the end of the war for the difficult task of international monetary co-operation. We should begin now to devise an international monetary agency, for the task is certain to take many months, at least. Specific and practical proposals must be formulated by the experts, and must be carefully considered by the policy-shaping officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in gathering personnel and in establishing an organization before an international institution for monetary co-operation can begin effective work.

There is another important reason for initiating, now, concrete discussions of specific proposals. A plan for international monetary co-operation can be a factor in winning the war.

It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean, in the economic sphere, a repetition of the exchange instability and monetary collapse that followed the last war.

That assurance should be given now. The people must know that we at last recognize the fundamental truth that prosperity, like peace, is indivisible.

One of the appropriate agencies to deal with international economic and monetary problems would be an international stabilization fund with resources and powers adequate to the task of helping to achieve monetary stability, and to facilitate the restoration and balanced growth of international trade.

A proposal drafted by American technical experts is outlined below. The draft presents only the essential elements of an international stabilization fund. The provisions of the proposal are in every sense tentative, intended as a basis for discussion and exchange of views. Obviously, there are many details that have been omitted, and that can be better formulated after there is agreement on the general principles.

It is recognized that an international stabilization fund is only one of the instrumentalities which may be needed in the field of international economic co-operation. Other agencies are also needed to

provide capital for post-war reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. There is a strong temptation to embrace within a single international agency the responsibility for dealing with these and other international economic problems.

We believe, however, that international economic institutions can operate more effectively if they are not burdened with important but extraneous duties for which they have not been devised, and for which they are unsuited. For example, the highly specialized nature of international monetary stabilization and the provision of long-term capital would seem to call for separate institutions each designed to deal with its distinct problems.

It should be emphasized that the following draft deals only with an international stabilization fund. It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development. It is hoped that the following outline will call forth from the experts of the United Nations critical comment and constructive suggestions. It is our belief that a workable and acceptable plan can emerge only from the joint efforts of the United Nations.

Proposal for a United and Associated Nations Stabilization Fund

I. PURPOSES OF THE FUND

1. To stabilise the foreign exchange rates of the currencies of the United Nations and nations associated with them.

2. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

3. To help create conditions under which the smooth flow of foreign trade and of productive capital among the member countries will be fostered.

4. To facilitate the effective utilization of the abnormal foreign balances accumulating in some countries as a consequence of the war situation.

5. To reduce the use of foreign exchange controls that interfere with world trade and the international flow of productive capital.

6. To help eliminate bilateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices.

II. COMPOSITION OF THE FUND

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments.

2. Each of the member countries shall subscribe a specified amount which will be called its quota. The aggregate of quotas of the member countries shall be the equivalent of at least 5 billion dollars.

The quota for each member country shall be determined by an agreed-upon formula. The formula should give due weight to the important factors relevant to the determination of quotas, e.g., a country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

3. Each member country shall provide the Fund with 50 per cent of its quota on or before the date set by the board of directors of the Fund on which the Fund's operations are to begin.

4. The initial payment of each member country (consisting of 50 per cent of its quota) shall be 12·5 per cent of its quota in gold, 12·5 per cent in local currency, and 25 per cent in its own (i.e. government) securities. However, any country having less than 300 million dollars in gold need provide initially only 7·5 per cent of its quota in gold, and any country having less than 100 million dollars in gold need provide initially only 5 per cent of its quota in gold, the contributions of local currency being increased correspondingly. A country may at its option substitute gold for its local currency or securities in meeting its quota requirements.

5. The member countries of the Fund may be called upon to make further provision toward meeting their quotas pro rata at such times, in such amounts, and in such form as the board of directors of the Fund may determine, provided that the proportion of gold called for shall not exceed the proportions indicated in II—4 above, and provided that a four-fifths vote of the board shall be required for subsequent calls to meet quotas.

6. Any changes in the quotas of member countries shall be made only with the approval of a four-fifths vote of the board.

III. POWERS AND OPERATIONS

The Fund shall have the following powers:

1. To buy, sell, and hold gold, currencies, bills of exchange, and government securities of member countries; to accept deposits and to earmark gold; to issue its own obligations, and to discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of balances, bills of exchange, and gold.

All member countries agree that all of the local currency holdings shall be free from any restrictions as to their use.

This provision does not apply to abnormal war balances acquired in accordance with the provisions of III—9, below.

2. To fix the rates at which it will buy and sell one member's currency for another, and the rates in local currencies at which it will buy and sell gold. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in these rates shall be considered only when essential to correction of a fundamental disequilibrium and be permitted only with the approval of four-fifths of member votes.

3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at a rate of exchange determined by the Fund, currency of any member country which the Fund holds, provided that:

(*a*) The foreign exchange demanded from the Fund is required to meet an adverse balance of payments on current account with the country whose currency is being demanded.

(*b*) The Fund's holdings of the currency of any member country shall not exceed during the first year of the operation of the Fund the quota of that country; it shall not exceed during the first two years 150 per cent of such quota; and thereafter it shall not exceed 200 per cent of such quota; except that upon approval by four-fifths of the member votes, the Fund may purchase any local currency in excess of these limits, provided that at least one of the following two conditions is met:

(i) The country whose currency is being acquired by the Fund agrees to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments, or

(ii) It is believed that the balance of payments of the country whose currency is being acquired by the Fund will be such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

(*c*) When the net holdings of the Fund of any local currency exceed the quota for that country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the board of directors. This provision does not apply to currencies acquired under III—9 below.

(*d*) When a member country is exhausting its quota more rapidly than is warranted in the judgment of the board of directors, the board may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Fund.

(*e*) A charge at the rate of 1 per cent per annum, payable in gold, shall be levied against any member country on the amount of its currency held by the Fund in excess of the quota of that country. Abnormal war balances acquired by the Fund (in accordance with III—9 below) shall not be included in the computed balance of local currency used as a basis for this charge.

(*f*) When the Fund's holdings of the local currency of a member country exceed the quota of that country, upon request by the member country the Fund shall resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.

4. The right of a member country to purchase foreign exchange from the Fund with its local currency for the purpose of meeting an adverse balance of payments on current account is recognized only to the extent of its quota, subject to the limitation in III—3 above and III—7 below.

5. With the approval of four-fifths of the member votes, the Fund in exceptional circumstances may sell foreign exchange to a member country to facilitate transfer of capital, or repayment or adjustment of foreign debts, when in the judgment of the board such a transfer is desirable from the point of view of the general international economic situation.

6. When the Fund's holdings of any particular currency drop below 15 per cent of the quota of that country, and after the Fund has used for additional purchases of that currency, (*a*) gold in an amount equal to the country's contribution of gold to the Fund, and (*b*) the country's obligations originally contributed, the Fund has the authority and the duty to render to the country a report embodying an analysis of the causes of the depletion of its holdings of that currency, a forecast of the prospective balance of payments in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The board member of the country in question should be a member of the Fund Committee appointed to draft the report. This report should be sent to all member countries and, if deemed desirable, made public. Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the anticipated demand for any particular currency may soon exhaust the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand and supply for the currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the foreign balances of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under appropriate conditions which are acceptable to both the Fund and the member country.

The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Fund shall apportion its sales of such scarce currency. In such apportionment, it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which it needs, all foreign exchange and gold it acquires in excess of the amount it possessed immediately after joining the Fund. For the purpose of this provision, including computations, only free foreign exchange and gold are considered. The Fund may accept or reject the offer. To help achieve this objective, each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately-held foreign balances appears unwarranted.

9. To buy from the Governments of member countries, abnormal war

balances held in other countries, provided all the following conditions are met:

(*a*) The abnormal war balances are in member countries and are reported as such (for the purpose of this provision) by the member Government on date of its becoming a member.

(*b*) The country selling the abnormal war balances to the Fund agrees to transfer these balances to the Fund and to repurchase from the Fund 40 per cent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 per cent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

(*c*) The country in which the abnormal war balances are held agrees to the transfer to the Fund of the balances described in (*b*) above, and to repurchase from the Fund 40 per cent of them (at the same price) with gold or such currencies as the Fund may wish to accept, at the rate of 2 per cent of the transferred balances each year for 20 years, beginning not later than 3 years after the date of transfer.

(*d*) A charge of 1 per cent, payable in gold, shall be levied against the country selling its abnormal war balances and against the country in which the balances are held. In addition a charge of 1 per cent, payable in gold, shall be levied annually against them on the amount of such balances remaining to be repurchased in each country.

(*e*) If the country selling abnormal war balances to the Fund asks for foreign exchange rather than local currency, the request will not be granted unless the country needs the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold, the accumulation of foreign balances, or other capital transactions.

(*f*) Either country may, at its option, increase the amount it repurchases annually. But, in the case of the country selling abnormal war balances to the Fund, not more than 2 per cent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.

(*g*) The Fund has the privilege of disposing of any of its holdings of abnormal war balances as free funds after the twenty-three-year period is passed, or sooner under the following conditions:

(i) Its holdings of the free funds of the country in which the balances are held fall below 15 per cent of its quota; or

(ii) The approval is obtained of the country in which the balances are held.

(*h*) The country in which the abnormal war balances are held agrees not to impose any restrictions on the use of the instalments of the 40 per cent portion gradually repurchased by the country which sold the balances to the Fund.

(*i*) The Fund agrees not to sell the abnormal war balances acquired under the above authority, except with the permission or at the request of the country in which the balances are being held.

The Fund may invest these balances in ordinary or special Government securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing Government is first obtained.

(*j*) The Fund shall determine from time to time what shall be the maximum proportion of the abnormal war balances it will purchase under this provision. Abnormal war balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of non-member countries, but shall not be authorized to hold such currencies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.

11. To borrow the currency of any member country, provided four-fifths of the member votes approve the terms of such borrowing.

12. To sell member-country obligations owned by the Fund provided that the board representative of the country in which the securities are to be sold approves.

To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.

13. To invest any of its currency holdings in Government securities and prime commercial paper of the country of that currency provided four-fifths of the member votes approve, and provided further that the board representative of the country in which the investment is to be made approves.

14. To lend to any member country its local currency from the Fund for one year or less up to 75 per cent of the currency of that country held by the Fund, provided such loan is approved by four-fifths of the member votes.

15. To levy upon member countries a *pro rata* share of the expenses of operating the Fund, payable in local currency, not to exceed $\frac{1}{10}$ per cent per annum of the quota of each country. The levy may be made only to the extent that the earnings of the Fund are inadequate to meet its current expenses, and only with the approval of four-fifths of the member votes.

The Fund shall make a service charge of $\frac{1}{4}$ per cent or more on all exchange and gold transactions.

16. The Fund shall deal only with or through:

(*a*) The treasuries, stabilization funds, or fiscal agents of member Governments;

(*b*) The central banks, only with the consent of the member of the board representing the country in question; and

(*c*) Any international banks owned predominantly by member Governments. The Fund may, nevertheless, with the approval of the member of the board representing the Government of the country concerned, sell its own securities, or securities it holds, directly to the public or to institutions of member countries.

IV. MONETARY UNIT OF THE FUND

1. The monetary unit of the Fund shall be the "Unitas" ("UN") consisting of 137½th grains of fine gold (equivalent to 10 dollars U.S.). The accounts of the Fund shall be kept and published in terms of Unitas.

2. The value of the currency of each member country shall be fixed by the Fund in terms of gold or Unitas, and may not be altered by any member country without the approval of four-fifths of the member votes.

3. Deposits in terms of Unitas may be accepted by the Fund from member countries upon the delivery of gold to the Fund, and shall be transferable and redeemable in gold or in the currency of any member country at the rate established by the Fund. The Fund shall maintain a 100 per cent reserve in gold against all Unitas deposits.

4. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the Fund. Thus if the Fund approves a reduction in the value of the currency of a member country (in terms of gold or Unitas), or if, in the opinion of the Board, the currency of a member country has depreciated to a significant extent, that country must deliver to the Fund when requested an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the gold or Unitas value of

the Fund's holdings. The same provisions shall also apply to the government securities of member countries held by the Fund. However, this provision shall not apply to currencies acquired under III—9 (abnormal war balances).

V. MANAGEMENT

1. The administration of the Fund shall be vested in a Board of Directors. Each Government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their Government. Directors and alternates may be reappointed.

In all voting by the board, the director or alternate of each member country shall be entitled to cast an agreed upon number of votes. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of voting power would seem to be the following: each country shall have 100 votes plus 1 vote for the equivalent of each 100,000 unitas (1 million dollars) of its quota. Notwithstanding the approved formula for distributing voting power, no country shall be entitled to cast more than one-fourth of the aggregate votes regardless of its quota. All decisions except where specifically provided otherwise, shall be made by a majority of the member votes.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become an *ex-officio* member of the Board and shall be chief of the operating staff of the Fund. The Managing Director and the assistants shall hold office for two years, shall be eligible for re-election, and may be removed for cause at any time by the board.

The Managing Director of the Fund shall select the operating staff in accordance with regulations established by the Board of Directors. Members of the staff may be made available upon request of member countries for consultation in connection with international economic problems and policies.

3. The Board of Directors shall appoint from among its members an executive committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be an *ex-officio* member of the Executive Committee. The Executive Committee shall be continuously available at the head office of the Fund, and shall exercise the authority delegated to it by the board. In the absence of any member of the executive committee, his alternate shall act in his place. Members of the executive committee shall receive appropriate remuneration.

4. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not employed by the Fund.

5. The Board of Directors may at any meeting, by a four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the board. The board may not delegate, except to the Executive Committee, any authority which can be exercised only by a four-fifths vote. Delegated powers shall be exercised only until the next meeting of the board, and in a manner consistent with the general policies and practices of the board.

6. The Board of Directors may establish procedural regulations governing the operations of the Fund. The officers and committees of the Fund shall be bound by such regulations.

7. The Board of Directors shall hold an annual meeting and such other meetings as it may be desirable to convene. On request of member coun-

tries casting one-fourth of the votes, the chairman shall call a meeting of the board for the purpose of considering any matters placed before it.

8. A country failing to meet its obligations to the Fund may be suspended provided a majority of the member votes so decides. While under suspension, the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. At the end of two years the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member votes.

Any country may withdraw from the Fund by giving notice, and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund. A country which is dropped or which withdraws from membership shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum owed by that country to the Fund.

Any losses of the Fund may be deducted *pro rata* from the contributed quota to be returned to the country that has been dropped or has withdrawn from membership. The Fund shall have five years in which to liquidate its obligation to such a country. When any country is dropped or withdraws from the Fund, the rights of the Fund shall be fully safeguarded.

9. Net profits earned by the Fund shall be distributed in the following manner:

(*a*) 50 per cent to reserves until the reserves are equal to 10 per cent of the aggregate quotas of the Fund.

(*b*) 50 per cent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in Unitas at the discretion of the Fund.

VI. POLICIES OF MEMBER COUNTRIES

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose any additional restrictions without the approval of the Fund. The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to such representations.

3. To co-operate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Co-operation shall include, upon recommendation by the Fund, measures that can appropriately be taken:

(*a*) Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the export of capital except with the permission of the government of that country and the Fund;

(*b*) To make available to the Fund or to the government of any member

country full information on all property in the form of deposits, securities, and investments of the nationals of that member country; and

(*c*) Such other measures as the Fund shall recommend.

4. Not to enter upon any new bilateral foreign exchange clearing arrangements, nor engage in multiple currency practices, except with the approval of the Fund.

5. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

6. To furnish the Fund with all information it needs for its operations and to furnish such reports as it may require in the form and at the times requested by the Fund.

7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund and to facilitate the activities of the Fund.

APPENDIX

COPY of letter from United States Secretary of the Treasury transmitting the text of the proposals for a United and Associated Nations Stabilization Fund to the following thirty-seven countries:

Australia, Belgium, Brazil, Canada, China, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, El Salvador, Ethiopia, Great Britain, Greece, Guatemala, Haiti, Honduras, India, Iraq, Luxembourg, Mexico, Netherlands, New Zealand, Nicaragua, Norway, Panama, Poland, South Africa, Union of Soviet Socialist Republics, Yugoslavia, Bolivia, Colombia, Chile, Ecuador, Paraguay, Peru, Uruguay, Venezuela.

"MY DEAR MR. MINISTER:

"I am sending for your examination a preliminary draft of a proposal for an international stabilization fund of the United and Associated Nations. This draft was prepared by the technical staff of the United States Treasury in consultation with the technical experts of other departments of this Government.

"The document is sent to you not as an expression of the official views of this Government but rather as an indication of the views widely held by the technical experts of this Government. I hope you will examine the draft and submit it for critical study by the technical experts of your ministry and your government. After you and your experts have had opportunity to study it, you may wish to send one or more of your technical experts to Washington to give me your preliminary reaction to the draft proposal, and to discuss with our technical experts the feasibility of international monetary co-operation along the lines suggested therein, or along any other lines you may wish to suggest. We are informed that the technical experts of the British Government have also been studying the question and will doubtless make their views available.

"It seems to me that the enclosed draft proposal points the way to an effective means of facilitating through co-operative action, the maintenance of international monetary stability and the restoration and balanced growth of international trade. It is my hope that as a result of unofficial discussions involving no commitments, we may find a sufficient area of agreement to warrant proceeding on a more formal basis.

"Very truly yours,

"HENRY MORGENTHAU, JR.

"*Secretary of the Treasury*"

LONDON: HIS MAJESTY'S STATIONERY OFFICE. PRICE 3d. NET

B3289. Wt. 589. 5,000. 4/43. U.B.L. G428. 59-9999

Ec. A. 6.
1,000.

LIBRARY OF THE BOMBAY BRANCH OF THE ROYAL ASIATIC SOCIETY

AGREEMENT FOR UNITED NATIONS RELIEF AND REHABILITATION ADMINISTRATION

1943

CX.b.26

GOVT. OF INDIA
PUBLICATIONS
are always ready in Stock at
JAIN BOOK AGENCY
CONNAUGHT PLACE
NEW DELHI.

PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI
PRINTED BY THE MANAGER, GOVERNMENT OF INDIA PRESS, NEW DELHI,
1944.

Price 4s. 3 or 4d.

U. S. A. Department of State Press Release, dated November 10, 1943

An Agreement for United Nations Relief and Rehabilitation Administration was signed at the White House between NOON and 12-30 P.M., November 9, 1943, on behalf of forty-four Governments or Authorities representing the United Nations or Nations associated with the United Nations in the war. Mr. Franklin D. Roosevelt, President of the United States, signed the Agreement on behalf of the United States of America.

The Agreement establishes the Administration, with a Council which shall be the policy-making body of the Administration, with a view to giving effect to the determination of the United Nations and of the other Nations associated with them in the war that, as stated in the preamble of the Agreement, " immediately upon the liberation of any area by the armed forces of the United Nations or as a consequence of retreat of the enemy the population thereof shall receive aid and relief from their sufferings, food, clothing and shelter, aid in the prevention of pestilence and in the recovery of the health of the people, and that preparation and arrangements shall be made for the return of prisoners and exiles to their homes and for assistance in the resumption of urgently needed agricultural and industrial production and the restoration of essential services ".

The list of the signers of the Agreement, in the order in which they signed, is as follows :—

FOR THE COMMONWEALTH OF AUSTRALIA : Sir Owen Dixon, Envoy Extraordinary and Minister Plenipotentiary of Australia in Washington.

FOR BELGIUM : Mr. Paul-Henri Spaak, Minister for Foreign Affairs of Belgium.

FOR BOLIVIA : Señor Dr. Don Luis Fernando Guachalla, Ambassador Extraordinary and Plenipotentiary of Bolivia in Washington.

FOR THE UNITED STATES OF BRAZIL : Mr. Eurico Penteado, Financial Attaché, Brazilian Embassy in Washington.

FOR CANADA : The Honorable Leighton McCarthy, Envoy Extraordinary and Minister Plenipotentiary of Canada in Washington.

FOR CHILE : Señor Don Rodolfo Michels, Ambassador Extraordinary and Plenipotentiary of Chile in Washington.

FOR CHINA : Dr. Tingfu F. Tsiang, Chief Political Secretary to the the President of the Executive Yuan of China.

FOR COLOMBIA : Señor Don Alberto Vargas Nariño, Chargé d' Affaires ad interim of Colombia in Washington.

FOR COSTA RICA : Señor Don Carlos Manuel Escalante, Ambassador Extraordinary and Plenipotentiary of Costa Rica in Washington.

FOR CUBA : Señor Dr. Aurelio F. Concheso, Ambassador Extraordinary and Plenipotentiary of Cuba in Washington.

FOR CZECHOSLOVAKIA : Mr. Jan Masaryk, Deputy Prime Minister and Minister of Foreign Affairs of Czechoslovakia.

FOR THE DOMINICAN REPUBLIC : Señor Dr. Don Julio Vega Batlle, First Secretary, Dominican Embassy in Washington.

FOR ECUADOR : Señor Dr. Don Sixto Durán Ballén, Consul General, New York.

FOR EGYPT : Mr. Mahmoud Hassan, Envoy Extraordinary and Minister Plenpotentiary of Egypt in Washington.

FOR EL SALVADOR : Señor Dr. Don Hector David Castro, Ambassador Extraordinary and Plenipotentiary of El Salvador in Washington.

FOR ETHIOPIA : Blatta Ephrom Tewelde Medhen, former Vice Minister of Foreign Affairs of Ethiopia and newly appointed Envoy Extraordinary and Minister Plenipotentiary of Ethiopia in Washington.

FOR THE FRENCH COMMITTEE OF NATIONAL LIBERATION : Mr. Jean Monnet, Commissioner for Supply and Reconstruction.

FOR GREECE : Mr. Kyriakos Varvaressos, Governor of the Bank of Greece and former Minister of Finance of Greece.

FOR GUATEMALA : Señor Dr. Don Adrian Recinos, Ambassador Extraordinary and Plenipotentiary of Gautemala in Washington.

FOR HAITI : Mr. André Liautaud, Ambassador Extraordinary and Plenipotentiary of Haiti in Washington.

EX.P.26.

FOR HONDURAS: Señor Dr. Don Julián R. R. Cáceres, Ambassador Extraordinary and Plenipotentiary of Honduras in Washington.

FOR ICELAND: Mr. Magnus Sigurdsson, Director of the National Bank of Iceland.

FOR INDIA: Sir Girja Shankar Bajpai, Agent General for India in Washington.

FOR IRAN: Mr. Mohammed Shayesteh, Envoy Extraordinary and Minister Plenipotentiary of Iran in Washington.

FOR IRAQ: Mr. Ali Jawdat, Envoy Extraordinary and Minister Plenipotentiary of Iraq in Washington.

FOR LIBERIA: Mr. Walter F. Walker, Consul General of Liberia in New York.

FOR LUXEMBOURG: Mr. Pierre Dupong, Prime Minister of Luxembourg.

FOR THE UNITED MEXICAN STATES: Señor Dr. Don Francisco Castillo Nájera, Ambassador Extraordinary and Plenipotentiary of the United Mexican States in Washington.

FOR THE NETHERLANDS: Mr. P. A. Kerstens, Minister for Trade, Industry, Shipping, Agriculture and Fisheries of the Netherlands.

FOR NEW ZEALAND: Geoffrey S. Cox, Chargé d'Affaires ad interim of New Zealand in Washington.

FOR NICARAGUA: Señor Dr. Don Guillermo Sevilla Sacasa, Ambassador Extraordinary and Plenipotentiary of Nicaragua in Washington.

FOR NORWAY: Mr. Wilhelm Munthe de Morgenstierne, Ambassador Extraordinary and Plenipotentiary of Norway in Washington.

FOR PANAMA: Señor Don Enrique A. Jiménez, Ambassador Extraordinary and Plenipotentiary of Panama in Washington.

FOR PARAGUAY: Señor Dr. Don. Celso R. Velázquez, Ambassador Extraordinary and Plenipotentiary of Paraguay in Washington.

FOR PERU: Señor Don Manuel de Freyre y Santander, Ambassador Extraordinary and Plenipotentiary of Peru in Washington.

FOR THE PHILIPPINE COMMONWEALTH: The Honorable Sergio Osmena, Vice-President of the Philippine Commonwealth.

FOR POLAND: Mr. Jan Kwapinski, Vice-Premier and Minister of Industry, Commerce and Shipping of Poland.

FOR THE UNION OF SOUTH AFRICA: Mr. Ralph William Close, Envoy Extraordinary and Minister Plenipotentiary of the Union of South Africa in Washington.

FOR THE UNION OF SOVIET SOCIALIST REPUBLICS: Mr. Andrei A. Gromyko, Ambassador Extraordinary and Plenipotentiary of the Union of Soviet Socialist Republics in Washington.

FOR THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND: The Right Honorable The Viscount Halifax, Ambassador Extraordinary and Plenipotentiary of the United Kingdom in Washington.

FOR THE UNITED STATES OF AMERICA: Mr. Franklin D. Roosevelt, President of the United States of America.

FOR URUGUAY: Señor Dr. Don Juan Carlos Blanco, Ambassador Extraordinary and Plenipotentiary of Uruguay in Washington.

FOR VENEZUELA: Señor Dr. Don Diógenes Escalante, Ambassador Extraordinary and Plenipotentiary of Venezuela in Washington.

FOR YUGOSLAVIA: Mr. Constantin Fotitch, Ambassador Extraordinary and Plenipotentiary of Yugoslavia in Washington.

It is provided in Article IX of the Agreement that it shall enter into force with respect to each signatory on the date whon signed by that signatory, unless otherwise specified by such signatory. The Agreement was signed on behalf of fourteen Governments with a reservation or statement to the effect, in each case, that the Agreement was signed subject to ratification or legislative approval. The fourteen Governments on behalf of which the Agreement was signed with such a reservation or statement are as follows: Chile, Colombia, Cuba, Ecuador, Ethiopia, Guatemala, India, Iran, Iraq, Mexico, Nicaragua, Peru, Uruguay and Venezuela.

Article V of the Agreement provides that each member government shall contribute to the support of the Administration in so far as its appropriate constitutional bodies shall authorize.

AGREEMENT FOR UNITED NATIONS RELIEF AND REHABILITATION ADMINISTRATION

The Governments or Authorities whose duly authorized representatives have subscribed hereto,

Being United Nations or being associated with the United Nations in this war,

Being determined that immediately upon the liberation of any area by the armed forces of the United Nations or as a consequence of retreat of the enemy the population thereof shall receive aid and relief from their sufferings, food, clothing and shelter, aid in the prevention of pestilence and in the recovery of the health of the people, and that preparation and arrangements shall be made for the return of prisoners and exiles to their homes and for assistance in the resumption of urgently needed agricultural and industrial production and the restoration of essential services,

Have agreed as follows:

ARTICLE I

There is hereby established the United Nations Relief and Rehabilitation Administration.

1. The Administration shall have power to acquire, hold and convey property, to enter into contracts and undertake obligations, to designate or create agencies and to review the activities of agencies so created, to manage undertakings and in general to perform any legal act appropriate to its objects and purposes.

2. Subject to the provisions of Article VII, the purposes and functions of the Administration shall be as follows:

(*a*) To plan, co-ordinate, administer or arrange for the administration of measures for the relief of victims of war in any area under the control of any of the United Nations through the provision of food, fuel, clothing, shelter and other basic necessities, medical and other essential services; and to facilitate in such areas, so far as necessary to the adequate provision of relief, the production and transportation of these articles and the furnishing of these services. The form of activities of the Administration within the territory of a member government wherein that government exercises administrative authority and the responsibility to be assumed by the member government for carrying out measures planned by the Administration therein shall be determined after consultation with and with the consent of the member government.

(*b*) To formulate and recommend measures for individual or joint action by any or all of the member governments for the co-ordination of purchasing, the use of ships and other procurement activities in the period following the cessation of hostilities, with a view to integrating the plans and activities of the Administration with the total movement of supplies, and for the purpose of achieving an equitable distribution of available supplies. The Administration may administer such co-ordination measures as may be authorized by the member governments concerned.

(*c*) To study, formulate and recommend for individual or joint action by any or all of the member governments measures with respect to such related matters, arising out of its experience in planning and performing the work of relief and rehabilitation, as may be proposed by any of the member governments. Such proposals shall be studied and recommendations formulated if the proposals are supported by a vote of the Council, and the recommendations shall be referred to any or all of the member governments for individual or joint action if approved by unanimous vote of the Central Committee and by vote of the Council.

ARTICLE II

Membership.—The members of the United Nations Relief and Rehabilitation Administration shall be the governments or authorities signatory hereto and such other governments or authorities as may upon application for membership be admitted thereto by action of the Council. The Council may, if it desires, authorize the Central Committee to accept new members between sessions of the Council.

Wherever the term "member government" is used in this Agreement it shall be construed to mean a member of the Administration whether a government or an authority.

ARTICLE III

The Council.—1. Each member government shall name one representative, and such alternates as may be necessary, upon the Council of the United Nations

Relief and Rehabilitation Administration, which shall be the policy-making body of the Administration. The Council shall, for each of its sessions, select one of its members to preside at the session. The Council shall determine its own rules of procedure. Unless otherwise provided by the Agreement or by action of the Council, the Council shall vote by simple majority.

2. The Council shall be convened in regular session not less than twice a year by the Central Committee. It may be convened in special session whenever the Central Committee shall deem necessary, and shall be convened within thirty days after request therefor by one-third of the members of the Council.

3. The Central Committee of the Council shall consist of the representatives of China, the Union of Soviet Socialist Republics, the United Kingdom, and the United States of America, with the Director General presiding, without vote. Between sessions of the Council it shall when necessary make policy decisions of an emergency nature. All such decisions shall be recorded in the minutes of the Central Committee which shall be communicated promptly to each member government. Such decisions shall be open to reconsideration by the Council at any regular session or at any special session called in accordance with Article III, paragraph 2. The Central Committee shall invite the participation of the representative of any member government at those of its meetings at which action of special interest to such government is discussed. It shall invite the participation of the representative serving as Chairman of the Committee on Supplies of the Council at those of its meetings at which policies affecting the provision of supplies are discussed.

4. The Committee on Supplies of the Council shall consist of the members of the Council, or their alternates, representing those member governments likely to be principal suppliers of materials for relief and rehabilitation. The members shall be appointed by the Council, and the Council may authorize the Central Committee to make emergency appointments between sessions of the Council, such appointments to continue until the next session of the Council. The Committee on Supplies shall consider, formulate and recommend to the Council and the Central Committee policies designed to assure the provision of required supplies. The Central Committee shall from time to time meet with the Committee on Supplies to review policy matters affecting supplies.

5. The Committee of the Council for Europe shall consist of all the members of the Council, or their alternates, representing member governments of territories within the European area and such other members of the Council representing other governments directly concerned with the problems of relief and rehabilitation in the European area as shall be appointed by the Council; the Council may authorize the Central Committee to make these appointments in cases of emergency between sessions of the Council, such appointments to continue until the next session of the Council. The Committee of the Council for the Far East shall consist of all the members of the Council, or their alternates, representing member governments of territories within the Far Eastern area and such other members of the Council representing other governments directly concerned with the problems of relief and rehabilitation in the Far Eastern area as shall be appointed by the Council; the Council may authorize the Central Committee to make these appointments in cases of emergency between sessions of the Council, such appointments to continue until the next session of the Council. The regional committees shall normally meet within their respective areas. They shall consider and recommend to the Council and the Central Committee policies with respect to relief and rehabilitation within their respective areas. The Committee of the Council for Europe shall replace the Inter-allied Committee on European postwar relief established in London on September 24, 1941 and the records of the latter shall be made available to the Committee for Europe.

6. The Council shall establish such other standing regional committees as it shall consider desirable, the functions of such committees and the method of appointing their members being identical to that provided in Article III, paragraph 5 with respect to the Committees of the Council for Europe and for the Far East. The Council shall also establish such other standing committees as it considers desirable to advise it, and, in intervals between sessions of the Council, to advise the Central Committee. For such standing technical committees as may be established, in respect of particular problems such as nutrition, health, agriculture, transport,

repatriation, and finance, the members may be members of the Council or alternates nominated by them because of special competence in their respective fields of work. The members shall be appointed by the Council, and the Council may authorize the Central Committee to make emergency appointments between sessions of the Council, such appointments to continue until the next session of the Council. Should a regional committee so desire, sub-committees of the standing technical committees shall be established by the technical committees in consultation with the regional committees, to advise the regional committees.

7. The travel and other expenses of members of the Council and of members of its committees shall be borne by the governments which they represent.

8. All reports and recommendations of committees of the Council shall be transmitted to the Director General for distribution to the Council and the Central Committee by the secretariat of the Council established under the provisions of Article IV, paragraph 4.

Article IV.

The Director General.—1. The executive authority of the United Nations Relief and Rehabilitation Administration shall be in the Director General, who shall be appointed by the Council on the nomination by unanimous vote of the Central Committee. The Director General may be removed by the Council on recommendation by unanimous vote of the Central Committee.

2. The Director General shall have full power and authority for carrying out relief operations contemplated by Article I, paragraph 2 (*a*), within the limits of available resources and the broad policies determined by the Council or its Central Committee. Immediately upon taking office he shall in conjunction with the military and other appropriate authorities of the United Nations prepare plans for the emergency relief of the civilian population in any area occupied by the armed forces of any of the United Nations, arrange for the procurement and assembly of the necessary supplies and create or select the emergency organization required for this purpose. In arranging for the procurement, transportation, and distribution of supplies and services, he and his representatives shall consult and collaborate with the appropriate authorities of the United Nations and shall, wherever practicable, use the facilities made available by such authorities. Foreign voluntary relief agencies may not engage in activity in any area receiving relief from the Administration without the consent and unless subject to the regulation of the Director General. The powers and duties of the Director General are subject to the limitations of Article VII.

3. The Director General shall also be responsible for the organization and direction of the functions contemplated by Article I, paragraphs 2 (b) and 2 (c).

4. The Director General shall appoint such Deputy Directors General, officers, expert personnel, and staff at his headquarters and elsewhere, including field missions, as he shall find necessary, and he may delegate to them such of his powers as he may deem appropriate. The Director General, or upon his authorization the Deputy Directors General, shall supply such secretariat and other staff and facilities as shall be required by the Council and its committees, including the regional committees and sub-committees. Such Deputy Directors General as shall be assigned special functions within a region shall attend meetings of the regional standing committee whenever possible and shall keep it advised on the progress of the relief and rehabilitation program within the region.

5. The Director General shall make periodic reports to the Central Committee and to the Council covering the progress of the Administration's activities. The reports shall be made public except for such portions as the Central Committee may consider it necessary, in the interest of the United Nations, to keep confidential; if a report affects the interests of a member government in such a way as to render it questionable whether it should be published, such government shall have an opportunity of expressing its views on the question of publication. The Director General shall also arrange to have prepared periodic reports covering the activities of the Administration within each region and he shall transmit such reports with his comments thereon to the Council, the Central Committee and the respective regional committees.

ARTICLE V

Supplies and Resources.—1. In so far as its appropriate constitutional bodies shall authorize, each member government will contribute to the support of the Administration in order to accomplish the purposes of Article I, paragraph 2 (a). The amount and character of the contributions of each member government under this provision will be determined from time to time by its appropriate constitutional bodies. All such contributions received by the Administration shall be accounted for.

2. The supplies and resources made available by the member governments shall be kept in review in relation to prospective requirements by the Director General, who shall initiate action with the member governments with a view to assuring such additional supplies and resources as may be required.

3. All purchases by any of the member governments, to be made outside their own territories during the war for relief or rehabilitation purposes, shall be made only after consultation with the Director General, and shall, so far as practicable, be carried out through the appropriate United Nations agency.

ARTICLE VI

Administrative Expenses.—The Director General shall submit to the Council an annual budget, and from time to time such supplementary budgets as may be required, covering the necessary administrative expenses of the Administration. Upon approval of a budget by the Council the total amount approved shall be allocated to the member governments in proportions to be determined by the Council. Each member government undertakes, subject to the requirements of its constitutional procedure, to contribute to the Administration promptly its share of the administrative expenses so determined.

ARTICLE VII

Notwithstanding any other provision herein contained, while hostilities or other military necessities exist in any area, the Administration and its Director General shall not undertake activities therein without the consent of the military command of the area, and unless subject to such control as the command may find necessary. The determination that such hostilities or military necessities exist in any area shall be made by its military commander.

ARTICLE VIII.

Amendment.—The provisions of this Agreement may be amended as follows:

(*a*) Amendments involving new obligations for member governments shall require the approval of the Council by a two-thirds vote and shall take effect for each member government on acceptance by it;

(*b*) Amendments involving modifications of Article III or Article IV shall take effect on adoption by the Council by a two-thirds vote, including the votes of all the members of the Central Committee;

(*c*) Other amendments shall take effect on adoption by the Council by a two-thirds vote.

ARTICLE IX.

Entry into Force.—This Agreement shall enter into force with respect to each signatory on the date when the Agreement is signed by that signatory, unless otherwise specified by such signatory.

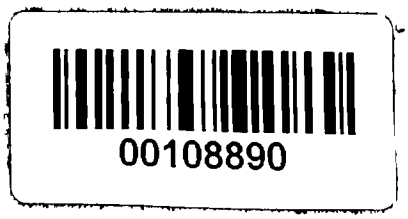
ARTICLE X

Withdrawal.—Any member government may give notice of withdrawal from the Administration at any time after the expiration of six months from the entry into force of the Agreement for that government. Such notice shall take effect twelve months after the date of its communication to the Director General subject to the member government having met by that time all financial, supply or other material obligations accepted or undertaken by it.

IN WITNESS WHEREOF, this Agreement is signed by the following representatives, duly authorized for that purpose by their respective Governments or Authorities.

DONE in Washington this ninth day of November, one thousand nine hundred forty-three, in the English language, the original to be deposited in the archives of the Department of State of the United States of America, and certified copies thereof to be furnished by the Government of the United States of America to each of the Governments and Authorities on whose behalf this Agreement is signed.

GIPD—M 347 EA to the Govt. of India—21-1-44—1,000



Digitized with financial assistance from the
Government of Maharashtra
on 02 July, 2018